FINANCIAL TIMES

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Nato generals warned Yugoslavia's president his country faced air strikes unless he complied fully with his commitments over Kosovo. They also demanded he reverse his decision to expel the chief international observer in the Serbian province. **Europe, Page 2**

Court ruling hits German budget
Oskar Lafontaine, German finance minister, had his budget plans thrown into confusion after a constitutional court ruled that tax perks for married couples with children should be improved. **Europe, Page 3**

France to loosen encryption rules
France is to liberalise the use of encryption technology on the internet. Pressure groups have complained that restricting the use of cryptology was undermining consumer confidence.

Russian PM tightens grip on power
Yevgeny Primakov, Russia's prime minister, consolidated his grip on power as one of the country's top spies was appointed to an influential media post. **Europe, Page 2**

Fears raised over 'euro crime'
Criminals will profit from the euro unless international co-operation improves, the UK's National Criminal Intelligence Service has warned. **Britain, Page 9**

Port may face compensation claim
The Norwegian owners of the Sea Empress, the oil tanker involved in one of Britain's worst oil disasters, are considering launching a claim against the port that admitted liability. **Britain, Page 9**

Romania threat to striking miners
The Romanian government said it was considering deploying troops to stop some 10,000 striking miners marching to Bucharest. **Europe, Page 3**

Greece told to soften drugs stance
Greece was told to end its automatic bar for life on nationals of other European Union countries convicted of drugs offences on its soil. **Europe, Page 3**

Spanish PM takes middle ground
José María Aznar, Spanish prime minister, has made a crucial move in his bid to occupy the political middle ground by naming Javier Arenas, until now labour and social affairs minister, to run the ruling centre-right Popular party. **Europe, Page 2**

SEC pursues fraud charges
The US Securities and Exchange Commission filed securities fraud charges in New York against four Canadians who it said had defrauded investors in Europe and Asia. **US & Canada, Page 4**

China tightens internet rules
China has ordered internet cafés and bars to register with local authorities and provide lists of customers. **Asia-Pacific, Page 6**

Yemen and UK face diplomatic row
Yemen is threatening a diplomatic row by claiming that Britain is colluding with Saudi Arabia to destabilise it. **Britain, Page 9**

Tinseltown sues Belgium
Hollywood is suing the Belgian government for calling its annual export prizes "Oscars".

BUSINESS NEWS

Astra and Zeneca plan switch to dollars after merger

Astra and Zeneca, Swedish and UK pharmaceutical groups planning a $35bn merger, are to adopt the dollar rather then the euro as their main accounting currency. **Companies and markets, Page 15**

@Home, US company that provides high speed internet access over cable television, is to buy Excite, the internet portal, for $6.7bn. **Companies and markets, Page 15; Lex, Page 14; Details, Page 20**

Mitsui Trust and Chuo Trust, two of Japan's largest banks, plan a merger that could accelerate the pace of restructuring in Japan's banking industry. **Page 15**

Cominco, Canadian metals producer, said it would close one of the world's largest copper mines because of rising world inventories and low prices. **Canadian companies, Page 20**

Boeing, US aircraft maker, snatched an order from its European rival Airbus Industrie with a $518m deal to supply Panamanian airline COPA. **World trade news, Page 7**

Nissan, Japanese carmaker, appeared to move closer to an alliance with a foreign rival when it said it would allow a foreign group to buy a stake of 33.4 per cent or more in the company. **Picture, Page 15; Asia-Pacific companies, Page 18**

Holderbank of Switzerland, the world's biggest cement group, is to acquire a 23.4 per cent stake in Huaxin Cement of China for about $20m. **Asia-Pacific companies, Page 18**

Deutsche Telekom said it was considering raising up to €10.8bn ($12.6bn) this year for possible acquisitions or mergers in the telecommunications sector. **European companies, Page 19**

Olivetti of Italy and Mannesmann of Germany increased their cash bid for Cellular Communications International of the US by nearly 22 per cent, to $80 a share. **European companies, Page 19**

The Czech Republic and Slovakia are to issue new GSM licences after the growth of the mobile market exceeded expectations. **World trade news, Page 7**

Telia of Sweden and Telenor of Norway, state-owned telecommunications groups, are believed to be close to agreeing a merger which would create Scandinavia's largest fixed and mobile telephone operator. Annual sales would be about SKr73bn ($9.3bn).

United Pan Communications, Europe's biggest provider of private cable television services, and Dutch utility NUON completed a Fl 550m (€637m, $290m) deal giving UPC full control of United Telekabel Holding, the partners' cable joint venture. **European companies, Page 19**

Euro Prices
A comprehensive [illegible] euro currency zone, [illegible] exchange, bond and [illegible]
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CENTRAL BANK WARNS THAT FINANCIAL TURMOIL COULD HIT EURO-ZONE GROWTH HARDER THAN EXPECTED

ECB opens way for early rate cut

By Tony Barber in Frankfurt

The European Central Bank left the door open yesterday for a cut in euro-zone interest rates, but said its benchmark 3 per cent rate seemed appropriate for the time being.

In its monthly report for January, the first since the launch of the European single currency, the ECB warned that global financial turbulence could cause greater damage to growth in the euro-zone than expected.

But the bank, responsible for monetary policy in the 11-member economic union since January 1, stressed that short and long-term rates were at historically very low levels. The euro-zone's real interest rates were also well below long-term averages, despite low inflation.

These observations, coupled with the bank's emphasis on the continuing resilience of consumer confidence in the euro-zone, amounted to an argument for leaving the main refinancing rate at 3 per cent.

The report treads a fine line between the case for cutting interest rates and maintaining them at the same level.

The ECB, whose primary task is to ensure low inflation, drew attention to the need both for moderate wage settlements and for the euro-zone's governments to adhere to the budgetary disciplines they accepted in the European Union's Stability and Growth Pact.

"Wage demands in excess of labour productivity growth and a relaxation of the fiscal stance in the euro area could represent sources of inflationary risk in the future," the ECB said.

Some European politicians and businessmen have called for a 0.25 percentage point cut in euro-zone rates as early as next month, saying it is needed to spur growth and employment at a time when the crises in Asia, Russia and Latin America are starting to affect Europe.

The centre-left rulers of France, Germany, Italy and other euro-zone countries believe a looser monetary policy can stimulate demand and lead to more jobs and faster growth. But the independent ECB says reforms to European labour markets are the key to job creation.

The report acknowledged confidence among European industrialists had fallen because of the uncertainties in the outlook for the world economy. A decline had been observed in outstanding orders and, to a lesser extent, in capacity utilisation, it said.

Noting that Eurostat, the EU's statistical agency, had estimated gross domestic product growth of only 2.4 per cent in the third quarter of 1998, compared with about 3 per cent in the first six months, the ECB said: "All this has fostered expectations of a slowdown in the growth of economic activity in the short term."

The report continued: "The possibility cannot be ruled out that the negative repercussions of recent global developments on economic growth in the euro area could turn out to be more serious than is currently anticipated."

The bank's analysis of these difficulties suggested that it recognised a case for relaxing monetary policy sooner rather than later. The last general interest cut in the euro-zone occurred on December 3, when the ECB co-ordinated a reduction in the main Franco-German rate from 3.3 to 3 per cent.

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MERGER SEEN AS A SETBACK FOR CREATION OF INTEGRATED AEROSPACE AND DEFENCE MANUFACTURER

European groups dealt blow as BAe opts for Marconi

By Our UK and International Staff

Prospects for the creation of an integrated European aerospace and defence manufacturer suffered a setback yesterday when British Aerospace announced its agreement to buy the Marconi defence division of General Electric Company for £6.9bn ($11.4bn) at last night's share prices.

The acquisition, which requires clearance from UK competition authorities, will create Britain's biggest manufacturing company, with 99,500 employees, and the world's third largest defence company by sales after Boeing and Lockheed Martin of the US.

However, the formation of such a large UK weapons maker disappointed European companies that had been working with BAe and GEC on cross-border mergers, which could have paved the way towards an integrated European group.

The deal is an embarrassment to Tony Blair, the UK prime minister, who campaigned for reconstruction of the European defence industry and backed the proposal for BAe to merge with DaimlerChrysler Aerospace of Germany as the first stage. It also emerged that there is "a chance" the GEC deal will be referred to the UK Monopolies Commission, an official said.

Senior government members acknowledged GEC's auction of Marconi was too good an opportunity for BAe to miss. But a minister said he was "furious" with GEC, and complained that the company's finance director, John Mayo, had used excessively aggressive tactics.

"He was threatening to sell Marconi to Lockheed and clearly [British] Aerospace could not allow that to happen," said a government member.

An official close to the prime minister was hopeful that the merger with Dasa could be resuscitated. BAe insisted its plans for European integration remained intact and that the economic logic for Dasa to reach an agreement was even greater after yesterday's deal.

Dasa, however, voiced strong opposition, saying the deal was an obstacle to European integration. It would pursue other alliances in the US and Europe.

Germany's government had no comment, but sources said it was likely to view the BAe-Marconi deal as a national rather than a pan-European solution to the problem of how to restructure Europe's defence companies.

French government officials did not disguise their view that the all-British deal could make efforts to encourage Europe-wide defence consolidation more difficult.

Executives at Thomson CSF, the French group which had proposed a merger with Marconi, bemoaned a lost opportunity to create a European defence company. It emerged that GEC rejected its offer partly because Thomson wanted a stipulation that the new company's senior executive should always be French. GEC felt the value that Thomson's offer put on Marconi, at less than £6bn, was not as good as BAe's.

The City of London showed its concern by marking down the shares of both BAe and GEC. BAe shares fell 68p to 425½p on concerns that it was overpaying for Marconi. BAe acknowledged it had offered a "full price", but said this was justified by the strategic advantages and savings which could be made through a merger. GEC shares fell 31p to 546½p.

Reporting by Alexander Nicoll, Robert Peston, Hugo Dixon and Alan Cane in London, Tony Barber in Frankfurt and David Owen in Paris

Gunfight at the UK corral and Observer, Page 13; Lex, Page 14
When size matters, Page 21

Powerful force: Lord Simpson, GEC managing director (left), and BAe chairman Sir Richard Evans in London Reuters

Clinton to increase public spending

By Gerard Baker in Washington

President Bill Clinton yesterday brushed aside the impeachment trial that could still remove him from office and launched the boldest policy initiative of his presidency with a plan to increase public spending to bolster the ailing finances of social programmes.

As his lawyers opened his defence against charges that he lied and obstructed justice in the Monica Lewinsky affair, Mr Clinton was set to use his annual State of the Union address last night to unveil a plan to spend all of an expected $4,000bn surplus over the next 15 years.

The move seemed set to pave the way for a legislative battle that could define his political legacy. Mr Clinton rejected using any of the vast projected surpluses for tax cuts, as Republicans have demanded.

Instead they would be directed principally towards shoring up Social Security, the state pension system, and Medicare, the health insurance programme for the elderly, which both face financial crises in the next 20 years as the population ages.

"This is the most ambitious agenda that the president has put forward since 1993," said Bruce Reed, Mr Clinton's chief domestic policy adviser.

Officials argued Mr Clinton had been trying to come up with a plan that could appeal to both parties, but Republicans looked certain to oppose many elements of it. Republicans in Congress are planning instead to put forward proposals which would use part of the surplus for Social Security and Medicare, but give back a large portion of it in tax cuts.

The centrepiece of Mr Clinton's programme was the plan to save Social Security. Thanks to soaring tax revenues and tight caps on spending imposed in the deficit years of the early 1990s, the White House now expects a cumulative federal budget surplus of $4,000bn by 2015.

About 62 per cent of the projected surplus would be added to Social Security's cash reserves. A quarter of that figure would be invested in the stock market, giving the federal government direct control over $650bn of stock market assets, an idea most Republicans have strongly opposed.

But Mr Clinton also proposed using another 11 per cent to subsidise retirement savings accounts that individuals would be encouraged to establish to finance part of their retirement needs.

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WORLD MARKETS

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	9,255.33	(-85.22)
NASDAQ Composite	2,375.52	(+27.32)
Europe and Far East		
CAC40	4,115.99	(-35.89)
DAX	5,073.15	(+22.75)
FTSE 100	6,027.6	(-96.3)
FTSE Eurotop 300	1,213.54	(-10.18)
Nikkei	13,770.44	(-34.62)
US LUNCHTIME RATES		
Federal Funds	4 11/16%	
3-mth Treas Bills: Yld	4.38%	
Long Bond	102 1/32	
Yield	5.11%	
OTHER RATES		
UK: 3-mo Interbank	5 11/16%	(5 11/16%)
UK: 10 yr Gilt	137.01	(137.09)
BBA Eurolibor	3 1/8	(3 1/8)
Germany: 10 yr Bund	108.41	(108.17)
Japan: 10 yr JGB	99.623	(100.517)
NORTH SEA OIL (Argus)		
Brent Dated	$11.23	(10.94)

GOLD		
New York Comex		
(Feb)	$286.8	(287.4)
London		
	$285.95	(286.95)
DOLLAR		
New York lunchtime		
£	1.656	
€	0.8615	
SFr	1.3747	
Y	113.725	
London		
£	1.6585	(1.6518)
€	0.8616	(0.8546)
SFr	1.3754	(1.3598)
Y	113.690	(113.390)
Tokyo close		Y 114.35
EURO (London)		
$	1.1607	(1.1697)
£	0.6999	(0.7021)
Y	131.954	(132.554)
SFr	1.5964	(1.6036)

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Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr265	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn18.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R18
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325 (€1.95)
Finland	[illegible]	Lebanon	LBP3,500	Sweden	SKr20.00
France	[illegible]	Luxembourg	[illegible]	Syria	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	Tunisia	[illegible]
[illegible]	[illegible]	Netherlands	[illegible]	[illegible]	[illegible]
Hungary	[illegible]	Norway	[illegible]	UAE	Dh13.00

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Time for a change of direction?

Creative Capital for Management Buy-Outs

Many companies reach a point where the management team decide it would be better to follow their own vision, rather than their leader's.

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WORLD NEWS
EUROPE

French vehicle makers to retire thousands

By Robert Graham in Paris

France's vehicle manufacturers are taking advantage of the introduction of a 35-hour week to carry out a huge state-aided rejuvenation of their ageing workforce to meet increased international competition.

Peugeot-Citroen and Renault, which dominate the domestic motor industry, said they were holding talks with the unions and the Socialist-led government over implementation of a scheme.

The companies said the prospect of 43,000 people taking early retirement as reported yesterday by Le Monde was too high a figure.

Peugeot-Citroen and Renault, which is 44 per cent state-owned, sought to rejuvenate their workforces in 1996 under the previous rightwing Juppé government. But the project was dropped because the automotive companies demanded too large a package of state aid – reportedly worth over FFr40bn (€6.1bn, $7.1bn).

The idea has been revived in recent weeks as Peugeot-Citroen and Renault have come under pressure from the Jospin government to set an example as flagship employers in introducing the 35-hour week.

Peugeot-Citroen is due to begin a final phase of discussions with the unions on tomorrow and Renault is expected to follow suit within the next two weeks. Until now no large private sector company has signed up for the 35-hour week, due to come into effect next year.

The average age of Renault's workforce is close to 45, while that of Peugeot-Citroen is 43. Fewer than 20 per cent are under 30. This heavy weighting at the top end of the age-scale places the two groups' French operations at an increasing disadvantage, especially compared with companies setting up greenfield plants at which average ages are substantially lower.

Both companies have their eye on Toyota, which is due to begin production in 2001 at its FFr4bn plant at Valenciennes in north-eastern France – employing 2,000 people to produce 150,000 units a year.

The law introducing the framework for the 35-hour week provides a sliding scale of financial incentives over five years for those companies that reduce working time and recruit new labour. The companies are reportedly hoping to employ one new person for every four accepting early retirement. At present total employment in the French automotive industry is 185,000.

Under the 35-hour week law and other early retirement schemes, the state contribution would be around FFr2.5bn if the companies get their way.

However, any agreement would have to be approved by the competition authorities in Brussels. Both the government and the unions will argue forcibly in favour of a larger intake to replace the early retirees. This would be likely to condition the amount of money the state may be prepared to provide to assist the scheme.

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KOSOVO CONFLICT TWO TOP NATO GENERALS GIVE BLUNT WARNING TO YUGOSLAV PRESIDENT IN BELGRADE

Milosevic warned of air strikes

By Guy Dinmore in Belgrade

Nato's two top generals yesterday warned Yugoslavia's president that his country faced air strikes unless he complied fully with his commitments on Kosovo. They also demanded he reverse his decision to expel the chief international observer from the province.

Details of Mr Milosevic's response to the demands presented by Wesley Clark, the US general and Nato's supreme commander, and Klaus Naumann, the German general, were not immediately known. But hardline statements carried by official state media and a continued offensive by government forces in Kosovo indicated Belgrade would not back down easily.

"Trust me, this is going to be a very clear and very blunt message," Gen Clark, said before meeting Mr Milosevic in Belgrade's Beli Dvor palace. Alexander Vershbow, US ambassador to Nato, said the alliance was "on the brink" of resorting to force and only compliance by Belgrade could prevent it.

In an agreement made on October 13 under the threat of Nato air strikes, Mr Milosevic pulled back some of his forces from Kosovo and gave permission to international observers to monitor a ceasefire intended to give a window of opportunity for negotiations on a lasting political settlement.

But William Walker, the US head of the Kosovo verification mission, was told on Monday night he had 48 hours to leave Yugoslavia for exceeding his mandate when he blamed Serbian security forces for the massacre of at least 45 ethnic Albanians in the village of Racak last Friday.

Serbia maintained that forensic experts from Belgrade and Belarus had established the victims were not executed at close range, as alleged by Mr Walker.

Mr Walker stood by his accusations. "There are limits (to our mandate). Maybe we went beyond those limits and that's why the government is mad at us," he said. But, he said, it was also mediation by his unarmed monitors that had so far persuaded the Kosovo Liberation Army (KLA) not to retaliate.

Police and army tanks attacked KLA rebels for a third day in villages close to Racak yesterday. One policeman was reported killed. United Nations aid workers said several thousand ethnic Albanian civilians had fled.

The official newspaper Politika accused Nato of seeking a pretext to use "the Iraqi recipe" in Kosovo.

Belgrade repeated it would not recognise the authority of the UN war crimes tribunal after turning away Louise Arbour, its chief prosecutor, at the border on Monday.

Serbia did say it would allow Finnish forensic experts to see the bodies of the Racak victims, now in a morgue in the regional capital Pristina.

Belgrade at the brink over Kosovo, Page 12

Serb policemen carry a wounded colleague yesterday in Racak. The policeman later died and two further policemen were wounded AP

Nato not ready for air attack

By David Buchan

Nato would require time to assemble bombers in southern Italy and to evacuate around 800 international monitors from Kosovo before it could launch any air strike on Yugoslavia, officials in Brussels said yesterday.

Nato has only 77 aircraft at its disposal in Italy, an official said yesterday, compared to the 250-340 which it calculated last October it would need to give the alliance a full range of options.

Once in Italy, pilots would need to start practising to reduce the time lag between an order from Nato ordering a strike and carrying it out. The aim would be to reduce this lag to no more than 48 hours.

Nato planners would also need to dust off their target list. The first priority would be to knock out Yugoslav air defences that might threaten Nato bombers, and some of these defences are in the Belgrade area. But the first phase would be limited to Kosovo, and nearby targets such as the garrison town of Nis in southern Serbia.

The 2,000-strong French-led "extraction force" based in Macedonia is equipped to take out small numbers of the international monitors. But a bigger Nato force of up to 8,000 troops might be needed to extract all of them.

Russian premier tightens grip on power

By John Thornhill in Moscow

Yevgeny Primakov, Russia's prime minister, yesterday consolidated his grip on the levers of power as one of the country's top spies was appointed to an influential media post.

Yuri Kobaladze, head of the information section at the SVR, Russia's external security service, has been named deputy chairman of the holding company that runs RTR, the state television channel. The SVR, one of the two successor organisations to the KGB, was formerly run by Mr Primakov.

Mr Kobaladze said he understood some people might be unhappy with his appointment, although he had worked for many years at Gostelradio, the former Soviet state media organisation. Mr Kobaladze also worked as a correspondent in London for the Tass news agency.

Since being appointed prime minister in September, Mr Primakov has steadily amassed more powers and strengthened his grip over the main television channels, which played a critical role in rallying support for Boris Yeltsin in the 1996 presidential elections.

"If we talk about the electronic media, then Primakov is already acting president," said one senior Russian journalist.

Over the past few months, Mr Primakov has appointed allies to senior positions within RTR and squeezed out opponents in other media outlets. For example, Lev Koshelyov, another SVR employee, was recently appointed director of Vesti, RTR's news programme.

The government has also been fighting to reassert its control over ORT, the main television channel, which is 51 per cent owned by the state but has been heavily influenced by Boris Berezovsky, the controversial financier.

NTV, the third, commercial television channel run by Vladimir Gusinsky, the media entrepreneur, has already swung firmly behind Mr Primakov, expressing strong support for the prime minister's consensual style of politics.

Many media commentators suggest Mr Primakov is positioning himself to take over from the ailing Mr Yeltsin, who was rushed to hospital on Sunday suffering from a bleeding stomach ulcer. He was yesterday forced to postpone a high-profile trip to France scheduled for the end of the month.

If Mr Primakov is interested in the presidency, which he has said he is not, he would be served by moving quickly. With the economy in decline, Mr Primakov's popularity is only likely to fall with time.

The Nezavisimaya newspaper appeared to be goading Mr Primakov into forcing Mr Yeltsin out of office yesterday. "Either Yevgeny Primakov breaks off his alliance with the Communists, takes all power in the state into his own hands and decisively continues reforms in Russia," the newspaper suggested. "Or he preserves the current situation of government powerlessness and inactivity and in so doing leads Russia into economic and political isolation from the entire civilised world."

The Kremlin forcefully rejected any suggestions that Mr Yeltsin might hand over any powers to the prime minister or step down before his term expires in the summer of 2000. Some observers speculated the article in the Nezavisimaya newspaper, which is controlled by Mr Berezovsky, could have been a provocation designed to drive a wedge between the president and prime minister.

Mr Primakov's attempts to grapple with Russia's runaway economy were further hampered yesterday when the Communist party obstructed the smooth passage of the 1999 draft budget.

The Communist faction argued that the government must cut spending on servicing its foreign debts this year by a further Rbs7bn ($305m) and use the money on social welfare projects. But the finance ministry insisted further cuts in debt servicing were "impossible".

De Silguy attacks high bank charges for euro

By Peter Norman in Brussels

Private citizens of the 11 euro-zone countries are making less than 1 per cent of their payments in Europe's new single currency and high bank charges are partly to blame, according to Yves-Thibault de Silguy, the European Union commissioner for monetary affairs.

Mr de Silguy told members of the European Parliament monetary sub-committee that while the euro's launch at the start of this year was a success, the Commission had to ensure it was not simply a currency of financial markets in the three years before the introduction of euro notes and coins on January 1 2002.

Mr de Silguy singled out as a special problem the high bank charges for small trans-frontier payments which resulted from the incompatibility of national payments systems. Referring to the new Target system of large-scale cross-border payments among banks, he said the EU's goals should be to create a "Target for the citizen". Although trans-border payments were the subject of an EU directive in 1997, ordinary people were still without a safe, rapid and cheap method.

In one case, a monthly transfer of €20 ($23) from a Belgian bank account to a bank account in Cologne carries a prohibitive BFr300 (€7.44, $8.62) for each payment.

High bank charges were highlighted on Monday by Christa Randzio-Plath, chairwoman of the parliament's monetary sub-committee, when she told MEPs that she paid the equivalent of DM7 (€3.58, $4.15) in charges when converting a DM10 note to French francs.

A Commission spokesman said Mr de Silguy was putting pressure on banks to reduce their charges and was prepared to consider legislation to control costs if voluntary efforts failed. The Commission is aware, however, that legislation to limit charges could create more problems if it encouraged banks to cease small trans-frontier transfer facilities.

● Gross domestic product of the 11-nation euro-zone and the 15-nation European Union grew a real 0.7 per cent in the third quarter of 1998 compared with the previous three months, according to revised Eurostat figures yesterday.

Spanish PM appoints centrist political heir

By David White in Madrid

José María Aznar, Spanish prime minister, has made a crucial move in his bid to occupy the political middle ground by naming Javier Arenas, until now labour and social affairs minister, to run the ruling centre-right Popular party.

The choice of Mr Arenas, set to become party secretary-general at a congress at the end of the month, also marks him out as a potential heir to Mr Aznar in the PP leadership. Mr Aznar, in power since 1996, has said he intends to serve no more than two four-year terms as prime minister.

Mr Arenas, 41, who has got on well with union leaders, symbolises the PP's bid to create a softer centrist image. Like several other close associates of Mr Aznar, he joined the PP after an early political career in the now-defunct UCD centre party.

He is also seen as a vote-puller in his home base of Andalucia, Spain's most populous region. Along with Catalonia, the south is crucial to the PP's ambition of achieving an outright majority in the Spanish parliament next year.

His predecessor in the party post, Francisco Alvarez-Cascos, deputy prime minister and a blunt figure nicknamed "Terminator" by some colleagues, was clearly a misfit in the new "reformist centre" image sought by Mr Aznar.

This move was one of several cabinet changes – the first Mr Aznar has made since taking office as prime minister in May, 1996.

The limited reshuffle, announced on Monday night, came after tantalising hints by Mr Aznar which provoked speculation about more sweeping changes.

However, the switches in three cabinet posts clearly had more to do with electoral tactics than government effectiveness. Several ministers widely considered vulnerable – including Margarita Mariscal de Gante at justice and Rafael Arias-Salgado, whose development ministry embraces transport and telecommunications – were spared.

Apart from Mr Arenas, replaced from inside his department by employment chief Manuel Pimentel, 37, the main economic and foreign policy posts were unchanged.

Eastern Europe takes a shine to hypermarket shopping

'It's a way of bringing dreams closer to people, dreams which they before saw only in films,' **Stefan Wagstyl** reports

When Tesco, the British retailer, opened a hypermarket in Zuglo, Budapest, last year, it sold 10,000 pairs of socks, 2,000 pairs of roller blades and 2,000kg of oranges on the first day. "People bought promoted products like I've never seen," says Steve Reynolds, Tesco Hungary marketing manager.

Nearly 10 years after the first western retailers opened their doors in central Europe, new stores still generate excitement. A consumer phenomenon once limited to capital cities is spreading deep into the provinces, touching the lives and changing the spending patterns of millions.

Foreign companies are concentrating their investments in Poland, Hungary and the Czech Republic. Slovenia, Slovakia and Romania have attracted attention. Carrefour, the French hypermarket operator, says Russia is on its list of possible sites.

Almost wherever they go, western retailers bring economic and social change. They promote lower prices by cutting inefficiencies of under-sized competitors and offer previously scarce products, including fish, fresh fruit, western fashions and toiletries.

"It's a way of bringing dreams closer to people, dreams which they before saw only in films," says Tadeusz Donocik, under-secretary of state at Poland's economics ministry.

Western retailers' investments are among the biggest by any industry in eastern Europe. Poland alone has attracted more than $2.2bn of foreign investment in retail and wholesale trade, with a further $2.8bn planned, according to Paiz, the Polish government investment agency.

With few exceptions, local stores struggle to compete. Privatisation created a fragmented retail trade, with little capital or know-how. In Poland, 90 per cent of the 500,000 outlets are one- or two-shop businesses. But if potential is great, so is competition. Over 100 foreign retailers have entered central Europe, with the biggest investors concentrating on food and household goods.

'Ultimately, only two or three important chains will exist'

Even with rapid market growth, some groups will not survive. Nicholas Jones, London-based retail analyst at Goldman Sachs, the US investment bank, says: "We are expecting a shake-out."

Metro, the world's second biggest retailer after Wal-Mart of the US, leads the way with $550m invested in Poland alone, and a further $650m in the pipeline, according to Paiz.

Lebensmittel Zeitung, a German trade paper, estimates Metro is the biggest retail group in Poland, mainly through Makro, its cash-and-carry chain, followed by Jeronimo Martins of Portugal, which is mainly in discount stores, and Milo, a tobacco wholesaler owned by Germany's DTV.

In the Czech Republic, Ahold, the Dutch hypermarket group, leads the way among foreign companies, followed by Delhaize of Belgium, and Tesco. In Hungary, Metro is in first place followed by Tengelmann of Germany with a mix of discount stores and cash-and-carry outlets.

With some powerful groups only just beginning to make an impact, the rankings could change considerably, especially in Poland, the biggest market. Carrefour, which now has four stores in the region, including three in Poland, plans to have about 13 in 18 months, 10 of them in Poland.

Casino of France, which has chosen Poland, Latin America and Taiwan as its international target markets, is increasing its Polish hypermarkets from four to about 20 in the next two years. "Our aim is to be market leader or co-leader," the group says.

Tesco, which started in the region only in 1994 – is expanding fast in an effort to reach critical mass in hypermarkets in Hungary, the Czech Republic, Slovakia and Poland. It plans to invest £250m in the region this year, taking its cumulative total to £600m. David Wild, European director, says: "Potential is huge".

Consolidation is already under way. Western companies have from the outset been buying local groups. Tesco has built on three key acquisitions: the Global chain in Hungary bought in 1994, Savia in Poland (1995) and the Czech operations of Kmart of the US (1996).

International mergers have also played a part. Metro's strong position owes much to its 1997 purchase of Makro, the Danish cash-and-carry company, which had already built an extensive east European business.

Competition from western groups is forcing local rivals to close or consolidate. Poland, for example, has seen the development of a national co-operative chain of discount stores called Lewiatan. Interkontakt, the Czech department store, pharmacy and discount store group, this year went one better with a cross-border deal when it bought PHS, a state-owned Polish food retailer, for $36m.

A bigger wave of deals is yet to come, when some western groups decide the market is too crowded and sell up. Werner Zeigler, head of the Hungarian activities of Julius Meinl, the Austrian group, says: "Ultimately, two or three important chains [in food retailing] will exist, just as in the rest of the world".

Metro is the industry's favourite to be among the winners, given the lead it has. But French hypermarket specialists are also expected to do well because the format seems popular with the region's consumers, at least with motorists.

But companies specialising in smaller-format shops argue that hypermarkets will not necessarily dominate retail sales overnight, not least because car ownership is less common than in the west. Also, old preferences for shopping daily die hard. Mr Zeigler says: "Habits are changing, but not as fast as experts predicted".

Tesco's hypermarket which opened last year in Budapest

Top ten retailers in central and eastern Europe

Company	Country of origin	Countries*	1997 Turnover DM (m)
Metro (Metro & Makro)	Germany	Poland, Hungary, Czech Republic	4,429
Tengelmann (Plus supermarkets)	Germany	Hungary, Poland, Czech Republic	1,484
Interkontakt	Czech Republic	Czech Republic, Poland	1,263
Julius Meinl	Austria	Hungary, Poland, Czech Republic	1,162
Jeronimo Martins (Biedronka discount chain)	Portugal	Poland	943
Rewe (Penny, Minimal, Billa)	Germany	Czech Republic, Poland, Hungary, Slovakia	826
Tesco	UK	Czech Republic, Slovakia, Poland, Hungary	826
Ahold (Ahold & Allkauf)	Netherlands	Czech Republic, Poland	663
DTV	Germany	Poland	450
Dohle (Hit)	Germany	Poland	438

Source: Lebensmittel Zeitung

Names in brackets are principal brands

*Companies in order of turnover. Figures include retrospective adjustment for 1998 takeovers

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COURT RULING GRANTS MORE TAX PERKS

Setback for Lafontaine budget plan

By Ralph Atkins in Bonn

Germany's constitutional court yesterday threw into confusion the long-term budget plans of Oskar Lafontaine, finance minister, after ruling that tax perks for married couples with children should be improved substantially.

Early estimates in Bonn suggested the ruling by the Karlsruhe court – insisting allowances available for single parents should also apply to married couples – would cost federal, state and local governments more than DM20bn ($11.9bn) a year from 2000.

The decision threatened to overshadow today's presentation to cabinet by Mr Lafontaine of his first budget. The revised plans for 1999 spending and borrowing by the federal government are intended to set the stage for a long-term consolidation of the state's finances with the aim of reducing the public sector deficit to 1 per cent of national income in 2002.

Mr Lafontaine has defied expectations of some critics by eschewing a deliberately expansionary federal budget – despite arguing economic policies within the European Union should be orientated towards encouraging domestic demand and job-creation.

New borrowings of DM56.2bn are envisaged for this year – exactly the same as planned by Theo Waigel, the former finance minister, in the 1999 budget he prepared before last September's election. In 1998, new borrowings were DM56.4bn.

Adjusted for differences in accounting, overall federal spending will rise by 1.7 per cent to DM488bn. Mr Lafontaine has taken advantage of better than expected tax revenues to defer some privatisation proceeds from 1998 to this year. He will blame the high level of debt inherited from previous government for limiting his room for manoeuvre.

But Mr Lafontaine will argue the Social Democrat/Green coalition government has maintained financial help for east Germany and earmarked DM2bn for combating youth unemployment.

The Karlsruhe court justified its ruling on child allowances by referring to the protection guaranteed in Germany's "basic law" – the country's post-war constitution – for the institutions of marriage and the family. It argued that special tax perks for single parents, even when they were cohabiting, violated this protection. Bringing allowances into line could save a married worker on a gross wages of DM70,000 a year and one child more than DM3,000.

The decision created a dilemma for the government. Ministers welcomed the support for the family , but the Bonn finance ministry was last night studying how the ruling could be financed.

Battle lines confused in EU copyright wars

The European parliament votes today on a host of amendments to the proposed copyright directive, reports **Emma Tucker**

Inside the market

As the European parliament prepares to vote today on a screed of amendments to the European Union's proposed copyright directive, the crossfire from warring public relations lobbies has reached ear-splitting levels.

The big record and film companies argue that European culture is under threat from internet operators who want to dilute copyright protection. The networks claim rights holders are trying to monopolise music and film distribution on the web, while hardware manufacturers say the music industry will consign machines such as recorders to history's dustbin, by insisting that private copying be outlawed. Artists say hardware manufacturers are encouraging piracy.

Few doubt that the EU needs to harmonise copyright legislation. In the digital era, where music and films can be transmitted across borders at the click of a mouse, divergent laws throw up barriers to the free movement of services. But finding the balance between the powerful lobbies, all of whom employ thousands of people, will be taxing.

One of the most critical issues to be settled is whether private copying – making a copy of the new Madonna CD in the quiet of your sitting room – should be allowed. Most member states address the unpoliceable problem of private copying by exempting it from copyright law and compensating artists via a levy imposed on blank cassettes and videos.

The new directive, as drafted by the Commission, leaves it to member states to decide whether to exempt private copying from copyright protection, a position that has thrown the International Federation of the Phonographic Industry – which represents companies such as EMI and Polygram – into panic.

This approach was fine for analogue technology but is not appropriate in the digital era, it argues. Once protected material is converted into electronic form and transmitted digitally it can be copied perfectly or cloned, by anyone. Therefore there should be no exemption for private copying.

Eacem, the European Association of Consumer Electronic Manufacturers, says this position is absurd. Taken to its logical conclusion, it would outlaw people from setting the video recorder to catch their favourite soap.

"The artists seem to think that in the digital age, every consumer risks turning into a pirate," says Peter Verhille, EU adviser to EACEM.

Precisely, says Ifpi, pointing to double deck machines on the market that make perfect copies of CDs in double time.

The only guaranteed way to protect Europe's artistes from piracy, it argues, is to outlaw private copying altogether. Some reasonable private copying – but controlled by the right holder via technological devices – could then be permitted.

The suspicion among organisations such as Eacem, and Etno (the European association for telecoms networks) is that Ifpi is using the piracy argument as a smokescreen to strengthen its grip on music and film distribution over the internet.

Ifpi's real worry, they suspect, is that artists will be tempted to bypass big record companies and market their works directly over the web.

"Piracy and copyright are two completely different issues," says Angelo Consoli, an independent record producer from Italy. "Piracy will only be scared off by effective technical protection, not by tougher copyright laws."

The other big argument concerns temporary copying – incidental copies that are made in passing as data flows across the internet.

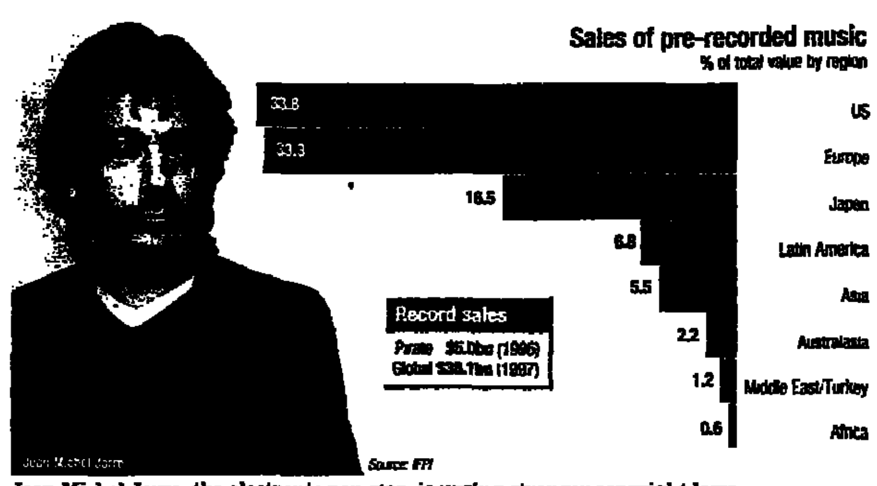
The Commission proposal says such copies – which are dictated by technology, and have no separate economic significance of their own – should not be covered by copyright law.

However, the parliament – whose legal affairs committee will today vote on the amendments – may modify the proposal so that the copies will only be exempted from copyright law where their distribution has been authorised by the rights holder. The network operators are extremely unhappy.

"Once material has entered the network, operators have no way of knowing which relate to copyrighted material – still less whether distribution has been authorised," says Neil Gibbs of Etno.

"Forcing network operators to implement prior monitoring and control of content is like requiring the post office to inspect all letters before delivering them."

The lobbying din will not die down once parliament has finished with the directive. Attention then turns to the member states. The German presidency of the European Union hopes to lead them to an agreement by June – a tight deadline, for what promises to be an epic battle.



Jean Michel Jarre, the electronic pop star, is urging stronger copyright laws

Bucharest may use troops to combat miners

By Joe Cook in Bucharest

The Romanian government yesterday said it was considering deploying troops to stop some 10,000 striking miners from marching to Bucharest. The move came after riot police failed to stall the advance of the miners amid signs the industrial unrest was spreading.

Police fired tear gas and miners hurled rocks in a series of battles that erupted shortly after dawn yesterday in the town of Bumbesti Jiu, about 270km north-west of Bucharest, where the miners had camped overnight.

Miners used a bulldozer to smash through road blocks and then forced their way through police cordons. No serious injuries were reported.

Victor Babiuc, the defence minister, and the National Security Council, which is chaired by President Emil Constantinescu, said the army would be mobilised if riot police failed to contain the miners.

Miners from the Jiu Valley coal region began marching to Bucharest on Monday, after the authorities blocked roads and halted train services between their valley and the capital.

They were joined yesterday by miners from the Oltenia coalfields in the town of Tirgu Jiu. Miners from Transylvania, in the north of the country, are also threatening to down tools and join the march.

Workers at the state-owned truckmaker Roman, based in the town of Brasov about 180km north of Bucharest, also said they would join the march.

Unlike the Jiu Valley miners, who went on strike more than two weeks ago in support of a 35 per cent pay rise and to protest against plans to close 140 coal and other mines, miners union leaders in Oltenia had signed an agreement with the government to support efforts to restructure Romanja's coal industry.

There are fears industrial unrest could spread further.

An estimated 70,000 people may lose their jobs if government plans to close or restructure 49 loss-making state-owned companies are carried out.

Another 70,000 workers in the steel industry are set to lose their jobs as part of a five-year plan to restructure the steel sector.

The unrest takes place at a particularly difficult time for Romania, one of Europe's poorest countries. Mr Vasile's often fractious three-way coalition is engaged in hectic efforts to revamp the economy.

A World Bank delegation yesterday arrived in Bucharest to begin talks with the government about a possible $500m credit. A team from the International Monetary Fund is scheduled to arrive in Romania on January 25 to open negotiations for a fresh standby credit.

End life ban for drugs, Greece told

Greece was told yesterday to end its automatic bar for life on nationals of other European Union countries convicted of drugs offences on its soil, Reuters reports from Athens.

The Luxembourg-based European Court of Justice ruled that a law preventing foreigners from returning to Greece if they are convicted there for drugs offences was in violation of the EU's fundamental freedoms.

The case was brought by Donatella Calfa, an Italian arrested and convicted in Crete for possessing illegal drugs for personal use. She was sentenced to three months' prison and deported for life.

Greece attracts hundreds of thousands of European and other tourists each year to its islands, known for their relaxed atmosphere. But its police enforce a strict anti-drugs policy.

The Greek law required courts to expel foreign drug users unless there were special circumstances such as family ties.

In a statement, the court said that EU member states could invoke public policy as justification for limiting freedoms in certain circumstances.

However, the fact of a conviction was not enough; the person involved must be judged to pose a threat.

"The Greek legislation at issue constitutes an obstacle to the freedom to provide services, to the freedom of movement for workers, and to the freedom of establishment which cannot be justified on grounds of public policy," the court concluded.

IN EUROPE:

STRONGLY HELD VIEWS ON GOLD RESERVES

As Europe builds its economic and monetary future, the people of France, Germany and Italy firmly believe that their nations' gold reserves are important to their economies.

A recent public opinion survey found:

IN FRANCE...
- 84 percent say that having a strong reserve of gold helps bolster public confidence in a nation's economy...
- 87 percent say that to protect against future economic shocks, it's important for the Banque de France to maintain its historic level of gold reserves.

IN GERMANY...
- 71 percent say their country's gold reserves are important to the strength of the D-Mark...
- 80 percent say that Germany should either maintain or increase the level of gold reserves held by the Bundesbank.

IN ITALY...
- 81 percent say that gold reserves are important for the economic and monetary independence they provide...
- 85 percent believe that Italy should either maintain or increase the level of gold reserves held by the Banca d'Italia.

Public confidence...monetary strength...economic independence. Important reasons why the public in three of Europe's most influential countries strongly believe that substantial gold reserves are an essential part of their economic future.

WORLD GOLD COUNCIL

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Survey conducted in France by SOFRES, in Germany by EMNID-SOFRES and in Italy by ABACUS-SOFRES. For results: http://www.gold.org © 1999 World Gold Council

STATE OF THE UNION SPEECH SENATORS WILL BE WATCHING DEFENDANT CLINTON AS WELL AS PRESIDENT CLINTON

Preoccupied audience will hear Clinton's address

By Mark Suzman in Washington

Just hours before preparing for the familiar ritual of the president's annual State of the Union address, all 100 members of the US Senate gathered yesterday to proceed with a far less common event: the second presidential impeachment trial in US history.

Even in a city long since grown accustomed to the strange juxtaposition of the tawdry, the surreal and the historic, the split-screen nature of the day's proceedings was unprecedented. As President Bill Clinton was making last-minute preparations before addressing both houses of Congress in the House of Representatives, his lawyers opened his formal defence at the other end of Capitol Hill by insisting that he was innocent of all charges relating to the Monica Lewinsky affair.

Paying tribute to the "weight of the moment" Charles Ruff, the wheelchair-bound White House counsel leading Mr Clinton's legal team, proclaimed that he would prove "beyond doubt" that the president was innocent. "William Jefferson Clinton is not guilty of the charges that have been preferred against him," he declared in a calm authoritative voice. "He did not commit perjury, he did not obstruct justice, he must not be removed from office."

It was the second consecutive year Mr Clinton's address had been overshadowed by his relationship with Ms Lewinsky. Last January, the president turned in a bravura performance, successfully using the speech to head off the just-erupted scandal by refocusing attention on his political agenda. But with the president's removal from office still a possibility, the White House was aware that achieving the same effect depended as much on Senate proceedings as on the speech.

Unsettled by the unexpectedly strong showing made by the 13 Republican "managers" from the House who laid out the case against Mr Clinton last week, the president's advisers adopted a two-pronged strategy. First, they sought to distract public attention from the trial proceedings by leaking key elements of his policy agenda. Then they hurriedly made plans for several Democratic congressmen to join the president's legal team to emphasise the partisan nature of the prosecution.

The Republicans repeatedly stressed their willingness to co-operate with Mr Clinton on doing the work of the country, while continuing to insist on the necessity of calling at least some witnesses before wrapping up the trial. don't think [witnesses] should lead to an unseemly spectacle," insisted Trent Lott, the Senate majority leader.

Call for new round of world trade talks likely to head agenda

By Deborah McGregor in Washington

President Bill Clinton was expected to propose a new round of world trade negotiations in his State of the Union speech yesterday, in a call aimed at combating protectionist forces that could arise from the current global financial turmoil.

The agenda for such talks would begin with trade in agriculture and services. Negotiations to liberalise trade in these two sectors were already scheduled to begin later this year, wrapping up loose ends from the previous global trade round, known as the Uruguay Round. Other areas that are also expected to be included are intellectual property, government procurement and industrial tariffs.

One of Mr Clinton's first challenges in opening any new talks will be to try to win "fast-track" negotiating authority from Congress, something he has failed repeatedly to do in recent years. Fast track authority frees the administration to negotiate world trade agreements and prevents Congress from changing any agreement once it is submitted for approval.

The main stumbling points over fast track in the past have been disputes over the treatment of sensitive labour and environmental issues in trade negotiations.

The Clinton administration has pushed for measures including workers' rights and environmental safeguards in trade talks. Most Republicans in Congress have resisted the inclusion of such measures, arguing that it represents an unfair imposition of red tape and regulation on companies doing business worldwide.

In calling for a new round of global negotiations, Mr. Clinton is embarking along a path that Europe and Japan have been urging him to follow for months. But the administration has been wary of launching a new round, given the arduous seven-year trek that began in 1986 in Uruguay, and took many rancorous turns before concluding with the establishment of the World Trade Organisation.

Leading up to the State of the Union address, Mr Clinton had announced plans to spend $110bn on defence over the next six years.

He also unveiled a number of new spending proposals for domestic programmes. Among these were a $2bn plan aimed at helping thousands of disabled workers to keep their health insurance, $1bn in federal spending to purchase more land for national parks and conservation purposes, and a $6.2bn programme to help people who need long term-medical care and the relatives who take care of them.

There were indications that he favoured paying for some of these with a new 55-cents-a-pack cigarette tax that would raise $8bn annually , but it was unclear whether Congress, which blocked his effort last year to raise the tobacco tax, would go along this time.

Bush takes Texas oath in shadow of Washington DC

'Compassionate conservative' is reluctant to commit himself to race for presidency – so far – reports **Hillary Durgan**

George Walker Bush stood on the steps beneath the great dome of the State Capitol in Austin yesterday and solemnly swore that he would "faithfully execute the duties of the office of Governor of the State of Texas".

As he took the oath to begin his second term, few among the thousands of Texans who had gathered for the ceremony, the ensuing barbecue, the parade and the balls could miss the echo of a similar oath, which they hope Mr Bush will be taking in Washington in two years.

The 52-year-old governor, the son of former President George Bush, has not yet declared his candidacy but he is the hot favourite to be the Republican nominee for president next year.

"I would like to see it," said Bob Sawyer, festively dressed in red, white and blue, of a Bush run at the presidency. He and his wife Shirley, retired schoolteachers from outside San Antonio, arrived early at the Capitol, which was draped in a massive Texas flag, to see the ceremony. "I like the man. I like his philosophy," Mr Sawyer said.

Even Mr Bush's political foes are backing him. As the Texas state legislature convened last week for the first time, the state's highest ranking Democrat, retiring Lieutenant-Governor Bob Bullock, introduced Mr Bush as the "future president of the United States".

But first things first. Mr Bush had to go through with the oath-taking and be installed in state office before being able to launch any presidential bid. It would have been bad form to commit himself to Washington before showing due deference to Austin.

"The 21st century will be one of great opportunity," Mr Bush told the crowd of 20,000 people.

Speaking first in Spanish and then English, he said: "People seeking to improve their lives and move up lift our entire economy. Society is renewed from the bottom up not the top down. This renewal will continue if government respects individuals, does not tax them too much and does not try to do for them what they ought to do for thenselves."

As Mr Bush was celebrating another term as governor in Austin, Bill Clinton was putting the finishing touches on his State of the Union address in Washington. At the same time, his lawyers were defending his presidency against Republican prosecutors before the Senate.

Mr Bush, the model of a Republican moderate, who dubs himself a "compassionate conservative", wants to be seen as a politician who can bridge political divisions, as well as the cultural and ethnic differences among the people of Texas and the nation as a whole.

As a symbol of the inclusiveness he is striving for, the theme of his inauguration is "Together we can – *Juntos podemos*". Mr Bush won the support of nearly half of the state's Hispanic voters, who are traditionally Democratic stalwarts.

He played upon those themes on the opening day of his inauguration celebration on Monday when he travelled to Houston to participate in a birthday celebration and children's concert honouring Martin Luther King Day.

Speaking from a stage surrounded by a children's chorus dressed in kente cloth, Chinese silks, and other ethnic costumes, Mr Bush drew on the words of the murdered civil rights leader and called for all Texans to work to "create a more compassionate society... a society where individuals are seen for who they are, not what they look like."

But, asked whether he had decided to carry his experience as Texas governor to the presidency, Mr Bush said he had not yet made a decision.

Mr Clinton did cast a shadow over the proceedings yesterday. Mr Bush has admitted that he is nervous about the intense personal scrutiny and the pressure on his wife and his two twin daughters, aged 17, that would accompany a run for the presidency.

"Our teenage daughters are reluctant, and I'd have been the same way at age 17," Mr Bush said. "And I married a beautiful wife who isn't pushing, saying, 'Gosh, I hope you put our family through the meat-grinder of national politics.' Somebody said, 'Is she reluctant?' and I said, 'You bet she's reluctant, as would most normal wives be reluctant'."

Bush: nervous about scrutiny

US Republicans vow to reform financial laws

By Richard Wolffe in Washington

Republicans leading the powerful Senate banking committee yesterday pledged to introduce a new bill to reform archaic US financial laws as the first piece of legislation on the Senate floor after the impeachment trial of President Clinton.

Phil Gramm, the new committee chairman, said he was determined to show that the Senate could deal with an important and complex piece of legislation in spite of the turmoil of impeachment.

Announcing plans to pass a draft bill through his committee by February 25. Mr Gramm said: "After the impeachment process, there will be a lot of desire from members to pass a major piece of legislation and I think it will benefit us if we can move quickly through this time schedule."

However, Democratic senators were sceptical about Mr Gramm's plans at a time when the Senate trial of the president is preparing to shift from half-day to full-day hearings.

Paul Sarbanes, the leading Democrat on the Senate banking committee, said: "I think this calendar is overly ambitious. This would be very ambitious if there were no impeachment on the agenda."

Democrats also objected to the fast-track approach because of fears that Republicans would railroad their concerns to protect community lending provisions.

The last efforts to rewrite the financial laws collapsed in October, largely because of Mr Gramm's opposition to the community lending provisions. Mr Gramm believes that the provisions – which require banks to provide loans to poor communities – encourage fraud and bribery.

Congress has tried and failed for more than 20 years to reform the Depression-era and post-war laws which mostly separate banks from insurers, and stockbrokers. The legislative process has been dogged by bitter squabbles between rival industry lobbies, as well as financial regulators.

Mr Gramm yesterday said he had requested meetings with both the Federal Reserve and the US Treasury in an attempt to resolve their long-standing conflict over which body should be the lead regulator of the financial conglomerates which are expected to emerge under any new law.

In practice, the financial services industry is pre-empting a change in the law by merging with one another or using new regulatory loopholes to extend their services. Citigroup, the merged combination of Citicorp and Travelers Group, would be forced to sell several subsidiaries if the laws are not reformed within five years.

Commodity futures regulator to step down

By Nikki Tait in Chicago

Brooksley Born, one of the most dynamic if controversial chairs of the Commodity Futures Trading Commission, the main futures industry regulator in the US, is to step down when her first term ends in April.

In a letter released yesterday, Ms Born – a Californian lawyer who specialised in futures before joining the commission – said she had given the question of a second term "careful consideration". However, she had decided "I would prefer to return to the private practice of law".

The departure of Ms Born, a long-time friend of Hillary Clinton, comes at a time when both the future of her agency, one of Washington's smaller regulatory authorities, and some of its work are under close scrutiny.

Under Ms Born's leadership, the CFTC clashed with powerful Wall Street interests and much larger regulatory agencies – such as the Securities and Exchange Commission, the US Treasury and the Federal Reserve – when it decided to take a closer look at the swelling over-the-counter derivatives market last year.

Many players in the swaps business saw this as a move by the CFTC, often viewed as a rather sleepy body in the past, to assert jurisdiction over over-the-counter derivatives – a grey area at present – and feared tighter regulation would follow.

In congressional hearings, Ms Born was forced to defend her stance against the likes of Alan Greenspan, head of the Federal Reserve and Arthur Levitt at the SEC. But she was largely vindicated when Long-Term Capital Management, the huge US hedge fund, required a $3.6bn emergency bailout last autumn. The fund had been big user of OTC derivatives, with very little regulatory supervision.

Ms Born said recently that the CFTC's inquiry into the OTC market was largely complete, although the agency is in effect barred from acting on or even publishing conclusions until March by congressional legislation.

In the meantime, the CFTC has joined other bigger agencies in a separate inquiry into hedge funds and OTC regulation under the auspices of the President's Working Group on Financial Markets, a multi-agency forum, which is due to report early this year.

The underlying issue of how to regulate derivatives markets, as products become more complex and previous distinctions get blurred, has caused some observers to question whether there is any reason to retain the CFTC as a separate agency.

'Baby Bells' lose long-distance law appeal

The US Supreme Court yesterday rejected appeals by three regional "Baby Bell" telephone companies challenging provisions of a 1996 law which have kept them out of the $80bn long-distance business, Reuters reports from Washington. In a brief order, without any comment or dissent, the court denied the appeals, letting stand a court of appeal decision which upheld provisions at the heart of the 1996 Telecommunications Act.

Under the law, the companies are barred from offering long-distance service to their local customers until they have opened their local networks to competitors.

SBC Communications, US West, and Bell Atlantic brought the challenge to the high court. They argued that the long-distance limits in the act, which apply only to them, violated the US constitution's prohibition on laws punishing specific individuals.

"In sum, this case poses a legal question of the first order in the context of a highly important statute that sets national policy in the exploding telecommunications field into the next millennium," SBC and US West said in their appeal.

Bell Atlantic made a similar argument, saying the appeals court decision allowed "a dangerous and revolutionary expansion of congressional power" and was inconsistent with fundamental constitutional principles.

The Supreme Court's rejection of the appeals represent a victory for the Justice Department, which has defended the constitutionality of the law.

In September, the New Orleans-based appeals court ruled that the law's restrictions were permissible economic regulation that did not constitute punishment of the Bell companies.

● The Supreme Court yesterday rejected two challenges to a $410m settlement between Prudential Insurance of America and policyholders who sued the insurer over sales practices. The justices, without comment or dissent, let stand a US appeals court ruling upholding a federal judge's approval of the deal. The appeals court said it was "fair, reasonable and adequate".

The class-action lawsuit was brought on behalf of 8m Prudential policyholders.

Four Canadians to face securities fraud charges

By Clay Harris, Banking Correspondent

The US Securities and Exchange Commission filed securities fraud charges in New York yesterday against four Canadians who it said had defrauded investors in Europe and Asia.

The SEC has so far identified losses of $1.5m but Thomas Sjoblom, one of its lawyers, said: "We know that's peanuts compared to what's involved."

The civil action has several intentions: to determine the extent of the operation, to identify other victims and to locate and recover as much of the money as possible. The SEC knows of victims in Sweden, Norway, Denmark, Ireland, Germany, the UK, Italy, France, Greece, Finland and Singapore.

The scam had two stages, the SEC said. In the first, shares in several tiny US companies traded over the counter were sold to investors through cold calls from "boiler rooms" in Europe and Asia. After prices collapsed to a fraction of the original, investors were approached again by "recovery rooms" which made inflated offers for the shares, but demanded huge "security deposits" which disappeared into offshore accounts.

The SEC's complaint said: "To carry out their scheme, the defendants carefully concealed themselves behind an elaborate screen of aliases, mailbox drops, fake corporate names, phony government agencies and Caribbean bank accounts."

The shares were sold by operations using the names Robinson Schwab International, Chateau Schreiber Financial Management and Trust, Anderson Blake and Oxford Securities.

They sold shares in "microcap" OTC companies including Electrogesic Corporation, Stratosphere Communications Corporation, International Software Technologies, Rockford Investment Corporation, Toxic Disposal Corporation and Integra Capital Corporation.

The "phantom" dealer brokers which made the second-stage offers were William Ashley Group, Nixon Management Group, Spencer Davis Group and Suntrust Management Group. None is registered with the SEC in any capacity.

The SEC filed securities fraud charges against Alan Benlolo, Michael Risman, Stephen Dale and Lenny Nacher.

Mr Benlolo is serving an 18-month sentence in a federal prison in New York state after pleading guilty in a related case of conspiracy to commit mail and wire fraud. Mr Risman and Mr Dale were also indicted in 1997 for conspiracy to commit mail and wire fraud.

Fears of Venezuela recession growing

By Raymond Colitt in Caracas

Less than a fortnight before Hugo Chávez takes office as elected president, Venezuela's business leaders foresee a deepening economic recession and the possibility of political conflict for 1999.

Investors have welcomed Mr Chavez's conciliatory tone since his landslide victory last month as well as indications that he may adopt orthodox economic policies. Yet few expect Mr Chávez, the former soldier who once tried to mount a coup, to be able to reverse the current economic downturn.

"Even if Chávez were to make all the right moves and to adopt orthodox economic policies, we would still see negative economic growth of around 1.5 per cent," Pedro Palma, head of Heptagon Financial Services, a local investment bank, told a conference of the influential Venezuelan American Chamber of Commerce yesterday.

Mr Palma said that private investment would fall as a result of political uncertainty, while rising production costs could push inflation above 40 per cent by year-end, up from 30 per cent last year.

Edmond Saade, head of Datos Information Services, a market research firm, said that per capita consumer demand would fall by an estimated 5 per cent this year, because "Venezuelans' standard of living was not recovering". Mr Saade forecasts an increase in unemployment from the present 12 per cent to 14 per cent.

Underlying much of the economic deterioration is the government's budget deficit, resulting from the collapse of the price of oil, the country's main source of revenue.

"The Chavez government faces a gigantic economic challenge. It is a very delicate situation," said Michel Goguikian, head of Santander Investment in Venezuela. He estimates this year's government borrowing requirement at $9bn, or roughly 9 per cent of GDP.

Mr Goguikian said he saw few alternatives to reaching an agreement with the International Monetary Fund, whose head, Michel Camdessus, is scheduled to meet Mr Chávez in Caracas towards the end of the month. "Chavez has the political capital to adopt the necessary reform measures," said Mr Goguikian.

Yet investors are concerned that Mr Chávez may clash with the country's traditional parties, which were defeated in December's presidential elections but hold some 40 per cent of congressional seats.

Mr Chávez has repeatedly accused the established parties of corruption and mismanagement of the country's vast oil wealth.

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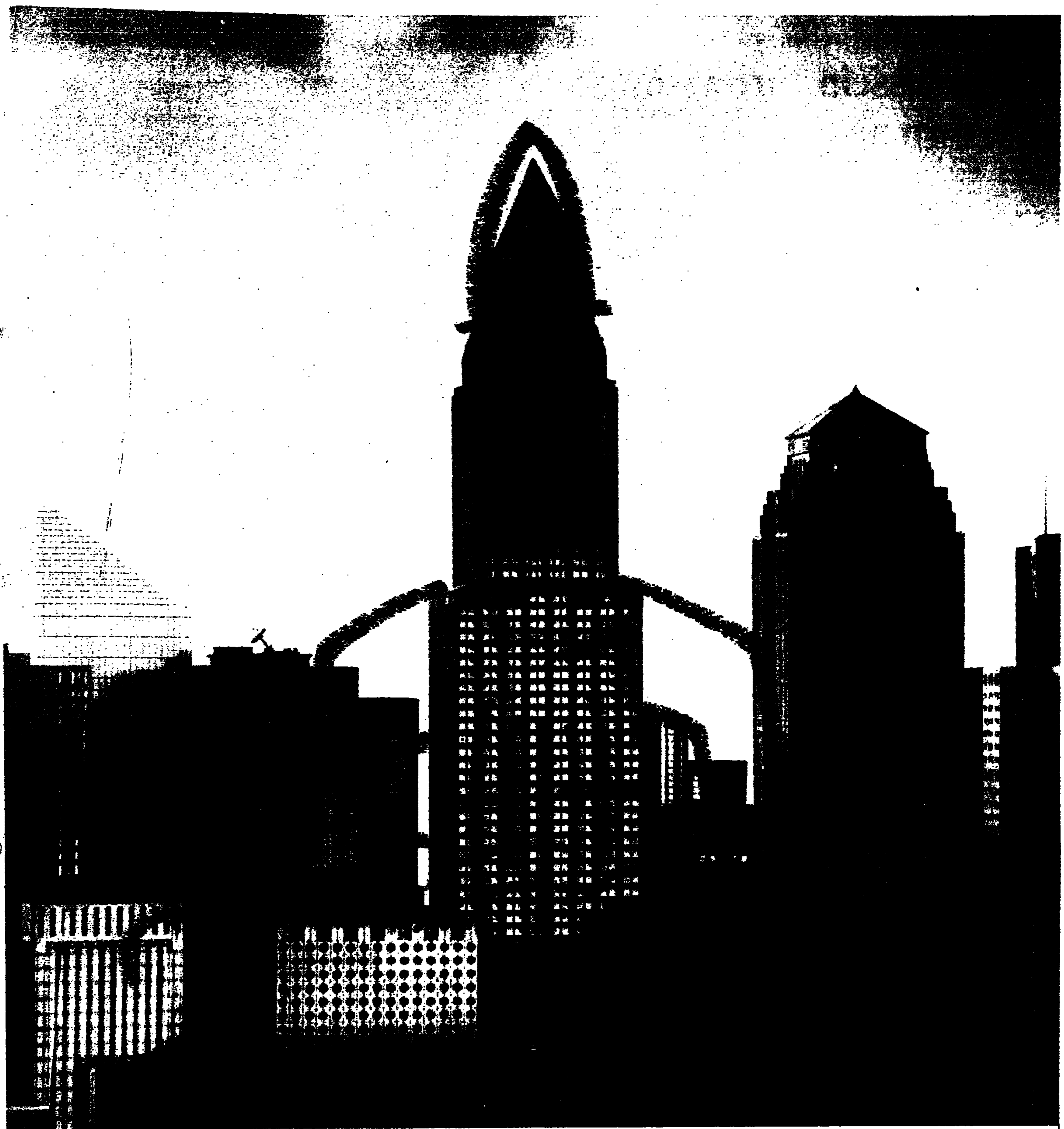

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JORDAN'S MONARCH KING RETURNS AFTER CANCER CURE IN US

King Hussein throws doubt on crown prince's succession

By Judy Dempsey

Jordan's King Hussein returned home yesterday after six months of cancer treatment in the US and immediately sparked speculation about his succession.The king, whose 45-year-old reign makes him the Arab world's longest serving leader, said a review of the succession was needed. Palace officials said the king had a clean bill of health and could resume duties.

Until now, it was assumed that his brother, Crown Prince Hassan, appointed successor in 1965 rather than the veteran monarch's eldest son, would take over. The constitution was amended to allow the change of successor.

Since then, Prince Hassan, a 51-year-old Oxford-educated linguist, has acted as the king's deputy, adviser and regent in his increasingly frequent absences. Last Saturday, in a televised address, King Hussein, 63, thanked "my dear brother and regent... who spared no effort, and who gave generously" while he was in the US.

But yesterday, in a palace statement, little mention was made of the Crown Prince. The king later said "a review" of the succession was necessary, and there was speculation that the succession might instead pass to Prince Hamza, the eldest son of Queen Noor, the King's fourth wife. The 18-year-old prince spent much time at his father's bedside during his recent illness.

If Prince Hazma was chosen, it would demand another change in the constitution – not difficult to arrange – but difficult perhaps for Prince Hassan to accept.

There is also speculation that five years ago King Hussein informed Crown Prince Hassan that a royal council would decide who was most qualified for the succession.

In any event, whoever succeeds the monarch will face formidable problems, most notably frustration among the 4m strong population with the collapse of the Middle East peace process and the lack of an economic dividend from the separate treaty Jordan signed with Israel in 1994.

Economically, Jordan has few natural resources, unemployment is over 40 per cent in some regions and the economy has slowed to 1 per cent growth a year. Continuing United Nations sanctions on Iraq have harmed the economy as much as slow domestic structural reforms, leaving any successor with few reasons to be optimistic.

The king flew into Amman to a red carpet reception with dignitaries including Yassir Arafat, Palestinian Authority president.

He looked stronger than four months ago when he left hospital at the Mayo Clinic, Minnesota, and travelled to Wye Plantation, Maryland, to cajole Benjamin Netanyahu, Israeli prime minister, and Mr Arafat into signing a new peace agreement.

King Hussein, left, yesterday greeting his brother Crown Prince Hassan, his nominated successor for 35 years AP

Ridding sport of apartheid's legacy will take extra time

The racial divide in sport still plagues South Africa, reports **Victor Mallet**

Anyone who thought the abolition of apartheid would mean a quick end to bitter arguments about racism in South African sport will by now be thoroughly disappointed.

Five years after President Nelson Mandela came to power – and in spite of all the efforts by sports administrators and Mr Mandela himself to promote non-racial sport – rugby, cricket and golf are still regarded mainly as white games, while soccer remains predominantly black.

"Cry, the divided rainbow nation!" mourned the black newspaper City Press recently. Under the headline "SA in black and white" it showed a picture of a sea of white faces at a rugby match in Pretoria, alongside a sea of black faces on the same day at a football game near Soweto.

Even the jokey, pre-fight bombast of boxers can exacerbate the all too serious racial divisions that still plague South African society. Before being knocked out this month by Mike Tyson, South Africa's "white buffalo" Francois Botha (whose manager and trainer are black) rashly declared that everyone in his country and in the US was "looking for a white champion".

That comment needled one black South African political commentator into saying that he was sure his fellow citizens would support the rapist not the racist.

With the spotlight now on cricket and rugby, the government has leapt into the fray. Steve Tshwete, sports minister, enraged many white South African sports fans by saying he would find it hard to support his own national teams if they did not give more opportunities to black players.

The ruling African National Congress says it will enforce the deracialisation of sport by enacting new laws if it has to. "Both the rugby and cricket national teams remain lily-white despite their much publicised development programmes in previously disadvantaged communities," the ANC said in December at the start of the West Indies cricket tour to South Africa.

Cricket and rugby administrators – supported by commercial sponsors such as South African Breweries (SAB) and Vodacom, the mobile phone company in which Vodafone of the UK has a 31 per cent stake – insist they are doing their best to train more black South African players. But they point out that it can take several years before a talented young competitor is good enough to compete for his country.

Two big obstacles to progress are the lack of sporting facilities in black residential areas – players might have to travel for more than an hour from a township to practice in a white suburb – and the traditional bias among black South Africans in most provinces towards football rather than cricket or rugby.

The solution to the first problem is at the mercy of tight government budgets, but the second is being overcome with the help of emerging black heroes in their 20s such as rugby hooker Owen Nkumane and cricket's fast bowler Makhaya Ntini, sports officials and sponsors believe.

According to Godfrey Morley, head of sponsorship at SAB: "Interests in sport have crossed the racial boundaries. "My yardstick is how fanatical and knowledgeable people are, and I find cricket fanatics in KwaThema and rugby fanatics in Natalspruit." Both are black townships.

The governing bodies of both cricket and rugby in South Africa have adopted quotas and "affirmative action" policies in an attempt to increase the pool of promising black players who can be chosen for international competitions. Provincial cricket sides will henceforth have to include players "of colour", while Vodacom sponsors an annual rugby cup in which each side must have two or more players from "previously disadvantaged" communities on the field.

After securing a comprehensive 5-0 victory with their largely white sides in the test series against the West Indies, the South African cricket authorities have sought to defuse the row with the government by including three black players, including Free State fast bowler Victor Mpitsang, in their 17-man squad for the one-day matches.

Ntini – who is facing a court battle after being charged with rape – is not one of them, but United Cricket Board officials say they believe he is innocent and he is one of six black players to have been chosen for the 30-man provisional World Cup squad.

Those involved are acutely aware of the dangers of over-hasty affirmative action, especially when it comes to choosing a national team. "You can't force someone into a side just because of previously being disadvantaged," says Nico van der Westhuizen, Vodacom's manager of rugby sponsorship. "I don't believe you should push someone into a scenario where he will not perform and have the whole country on his back."

Silas Nkanunu – the president of the South African Rugby Football Union who replaced rightwing politician Louis Luyt after protests about Luyt's attitude from commercial sponsors, government and provincial rugby unions – calls his delicately balanced policy of racial representation "merit with bias".

"The process is working. It's just that it's taking time. We're merely saying: Let's hasten it."

NEWS DIGEST

OLYMPIC BRIBERY

Finnish member quits IOC in corruption scandal

Pirjo Haeggman, a Finnish middle distance champion, yester- resigned from the International Olympic Committee implicated in a day rather than risk expulsion for being widening bribery scandal. Mrs Haeggman's ex-husband, Bjarne, reportedly worked briefly for the Salt Lake City bid committee and for 20 months in an Ontario government job initiated by the Toronto committee bidding for the 1996 Summer Games. She is one of 13 IOC members to be caught up in the Salt Lake City corruption scandal.

The IOC is investigating allegations that members or their relatives received cash payments, scholarships, free medical care, firearms, lavish gifts and other inducements from Salt Lake boosters.

The IOC executive board meeting this weekend has the power to suspend any member found guilty of corruption pending an expulsion vote by the full IOC assembly at a special session in March. The executive meeting is also expected to recommend sweeping changes in bidding procedures, including a ban on visits by IOC members to potential Olympic host cities. **Reuters, Lausanne**

ISRAELIGATE

Barak advisers burgled again

The Washington offices of a prominent Democratic pollster advising Ehud Barak, a candidate for prime minister of Israel, apparently have been burgled for the second time in a week, according to police. An employee of Greenberg Quilan discovered the apparent break-in about, said police spokesman Joe Gentile.

"It appears burglars entered the offices through a side skylight window on the second floor," Sgt Gentile said.

The firm, which is advising the campaign of Mr Barak, a leading opposition candidate to Israeli prime minister Benjamin Netanyahu, was burgled last week.

Mr Netanyahu's Likud party denied any involvement in the earlier incident which had been dubbed the "Israeli Watergate" in Washington and Jerusalem. It had been the most recent in a series of break-ins at homes and offices of Barak aides and advisers. **AP, Washington**

ZIMBABWE CAPITAL MARKET

Tax paralyses stock exchange

The stalemate on Zimbabwe's stock market entered its third day on Tuesday as brokers went to the exchange but no deals were struck because of a controversial new tax. "Nothing happened today, there was no trade at all and I understand the issue still hasn't been resolved," one broker said.

Brokers are up in arms over the 5 per cent tax levied on the gross capital income on any sale of securities as part of a 15 per cent capital gains tax on securities announced when the government unveiled its 1999 budget in October. They say the tax, to be charged regardless of whether or not a profit is made, will drive away investors. Traders say no one had collected the levy since the year began and that some brokers might collapse if the government demands proceeds backdated to January 1.
Reuters, Harare

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Degussa-Hüls

Specialty chemicals now have a new spelling: Degussa-Hüls AG. The company will have 46,000 employees and will start with sales of more than DM 20 billion. Degussa-Hüls – an attractive new international company with high growth potential based on the combined strengths of two established firms. Degussa-Hüls – the latest word for more expertise, more commitment, more innovation.

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Asian output of man-made fibres to grow

By Thorold Barker in London

Production of man-made fibres in Asia is set to grow strongly in the next seven years, putting pressure on higher cost European fibre producers, according to a report by Textiles Intelligence, the UK-based textiles consultancy.

The report estimates that production of polyester staple fibres, one of the most important man-made fibres, used for clothing and home textiles, will increase by about 5 per cent a year up to 2005. Production of other fibres, including polyamide and polypropylene, is expected to increase between 5 per cent and 10 per cent a year.

Textile Intelligence estimates that production of man-made fibres in western Europe will at best be static.

The report expects the increase in Asian production to be driven by local demand as the economies of the region recover. Demand in China, where fibre consumption per head is low compared to other Asian countries, should be particularly buoyant.

Robin Anson, managing director of Textiles Intelligence, said: "Some of the new Asian production will find its way to Europe, where it could compound the European industry's overcapacity problems."

Man-made fibre exports from Asia to Europe increased by 98 per cent in 1997 and have continued to grow rapidly in 1998. Asia produced 14.8m tonnes of man-made fibres in 1997 compared to 3.6m tonnes in western Europe in 1997.

Tony Cox, an analyst at Dresdner Kleinwort Benson, said: "The future of European [man-made] fibres groups lies in moving as far as they can up the value added chain. They will continue to lose mainstream fibres business to Asian suppliers."

The cost advantage for Asian suppliers stems from their lower labour costs, modern plants and weak currencies, following devaluations in the region.

The report also highlights the prospect of increased competition between Asian suppliers, while the global system of quotas is phased out in the next five years. Mr Anson said prices would come under pressure as suppliers that have not historically held export quotas enter the market.

'Natural and man-made fibres in Asia: Forecasts to 2005,' £295 (Europe, Africa and Mideast) or $525 (Americas/Asia) Tel +44 1625 536136; Fax: +44 1625 536137; E-mail: textintell@aol.com

Czechs and Slovaks plan more cellphone licences

By Robert Anderson in Prague

The Czech Republic and Slovakia are to issue new GSM licences after the growth of the mobile market exceeded expectations.

The Slovak government has called for bids by the end of March and intends to award the high-frequency GSM 1,800 megahertz licence by April 30. The Czech Telecommunications Office said it would also call a tender by the end of March and expects to award a licence in the same band by the end of June.

Mobile phone penetration in the Czech Republic has reached 9.3 per cent of the population and in Slovakia is estimated to be 10.5 per cent.

Klaus Tebbe, managing director of the Czech operator RadioMobil, estimates that he and his competitor Eurotel are each adding 200,000 customers a year.

In both countries, rival operators of GSM 900 megahertz licences have grown fast by keeping prices low and advertising heavily. They have also benefited by the failure of the fixed-line monopoly providers to remove waiting lists. "Nobody predicted such a growth in the market," said Stanislav Vanek of the Slovak telecommunications ministry.

However, there is expected to be less interest in the new licences because of the strong position of the existing operators, the growing maturity of the market, and the higher cost of setting up the GSM 1,800 megahertz network. "The third operator will have a really tough time," said Martin Nejedly, analyst at brokers Wood & Co in Prague.

In Slovakia, a tender for the licence failed last year, though largely because potential bidders were waiting for the new government.

This year bidders, who must have a 34 per cent Slovak partner and pay at least $10m for the licence, may be diverted by the long-delayed tender for a strategic partner of Slovenske Telekomunikace, which has a fixed-line monopoly until the end of 2002. A decision on the process is expected at the end of next month and a tender could be issued during the second quarter of the year.

Nor will existing mobile phone operators be allowed to bid for the new licences. In the Czech Republic, RadioMobil, in which a Deutsche Telekom-led consortium has 49 per cent, and Eurotel, in which Media One and Bell Atlantic of the US hold 49 per cent, will be excluded, though they hope to receive the higher frequency later.

In Slovakia, Globtel, in which France Telecom has 35 per cent, and Eurotel, in which Media One and Bell Atlantic hold 40 per cent, will also get the licence.

Hungary to issue third mobile telephone tender

By Robert Wright in Budapest

Hungary's transport and communications ministry expects to issue a long-awaited tender for a third digital mobile telecommunications licence early next month, according to the government official in charge of the project.

Imre Bölcskei, deputy state secretary at the transport, communications and waste management ministry, said that he would have liked to issue the tender for the new 1,800 megahertz telephone frequency band – originally scheduled for October – by the end of this month, but that February now looked more realistic.

The delay has been caused by technical problems relating to possible interference between newly issued wavebands and a portion of the already used 900 megahertz waveband which is used by the country's main telephone operator, Matav, for wireless connections in remote areas.

Mr Bölcskei said he expected negotiations with Matav over the new portion of the spectrum to finish next week. Publicly quoted Matav is 59 per cent owned by a consortium of Deutsche Telekom and Ameritech of the US. The new licence will allow a third major competitor into Hungary's digital mobile telephone market.

At present the only two digital operators are Westel 900, 51 per cent owned by Matav and 49 per cent by MediaOne Group of the US, and Pannon GSM, a Dutch-Scandinavian consortium. Although the entry of new participants will increase competition, Gyozo Drozdy, a spokesman for Pannon, welcomed the opening up of the new area of the spectrum because it would allow Pannon access to further frequencies apart from its already crowded 900 megahertz band.

Some bidders are understood to be unhappy over the expected requirement that any bidding consortium have 25 per cent Hungarian ownership. Because few Hungarian companies are interested in bidding, interested parties will need to deal with companies still owned by APV, the state privatisation company.

Mr Bölcskei said state owned companies such as Magyar Posta, the post office, or Antenna Hungaria, a broadcaster, might be barred from bidding. The state companies would then form a consortium to partner a successful bidder. Mr Bölcskei said he believed some potential bidders had been angered by the delay. They are concerned new entrants would find an increasingly competitive market that will require considerable investment in relay stations.

Editorial comment, Page 13

Boeing snatches Panama order

By James Wilson
In Panama City

Boeing, the US aircraft manufacturer, has snatched an order from its European rival Airbus Industrie with a deal to supply COPA, the Panamanian airline.

COPA is to buy eight of Boeing's 737-700 aircraft as part of a $516m contract announced yesterday in Panama. COPA will also lease a further four 737-700s. Four aircraft are set to be delivered in each of the next three years.

The order represents a small coup for Boeing as COPA was previously ready to buy from Airbus. COPA had a commercial alliance with TACA, a group of Central American carriers which placed a firm order of 30 Airbus A-320s last year.

However, COPA put its plans on hold and then changed its intentions after it entered an alliance with Continental Airlines of the US in May. Continental, one of Boeing's largest customers, took a 49 per cent stake in COPA.

Pedro Heilbron, COPA's executive president, confirmed that the airline had altered its purchasing plans after the alliance with Continental. "Continental is an operator of 737-700s and we are going to consolidate lots of our procedures. It made lots of sense to operate the same fleet," he said.

Airbus made inroads into Latin America last year. The aircraft ordered by TACA were part of a joint order for 90 aircraft by three Latin American airlines and represented Airbus's largest single order of 1998.

Seddik Belyamani, Boeing's executive vice-president of sales, said yesterday the deal with COPA would help Boeing to keep a broad customer base and maintain its presence in Latin America. "We still have a very large share in Latin America, if you look at all the major airlines," he said.

Under Continental's influence, COPA is keen to expand its range of routes through South America and turn Panama into a more important regional hub. COPA's existing fleet of 13 aircraft are also all Boeing models. The contract is Panama's largest ever aviation deal.

Jordan awards dams contract

By Kerin Hope in Athens

Aegek, a specialist Greek construction company, has won a DM180m (€92m, $107m) contract to build two dams in Jordan in partnership with Hydrogrania, a Serbian contractor with expertise in dam-building and irrigation projects.

The Mojib dam and the smaller Wala Dam, costing DM120m and DM60m respectively, will supply an irrigation network close to the Dead Sea, which is part of an extensive water conservation programme planned by the Jordanian government. Work is due to start next month and both dams will be completed in 42 months.

The Arab Fund for Social and Economic Development is to cover 70 per cent of the project cost, with the remaining 30 per cent coming from the Jordanian government. It is the first time a Greek company has won a government contract in Jordan, Aegek said.

Athens-based construction companies have stayed away from the Middle East for almost two decades, because successive Greek governments were unable to provide export credit guarantees. Several leading Greek contractors faced bankruptcy in the early 1980s after payment was withheld for public works projects awarded by the governments of Iraq and Libya.

Pantelis Skarmoutsis, Aegek's financial director, said the company was keen to diversify outside Greece before the current wave of EU-funded infrastructure projects ends. Aegek, a tunnel and bridge-building specialist, has orders worth Dr130bn ($463m) for public works projects in Greece. It is also building a $22m private office block in the Romanian capital Bucharest.

The Serbian contractor will provide know-how for the dam projects, but cannot contribute cash as a result of international financial sanctions imposed against the Yugoslav federation for failing to resolve the conflict in Kosovo.

"Hydrogrania is technically strong and has built more than 60 dams around the world, but it's financially weak. It can't get a bank guarantees for example," Mr Skarmoutsis said.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported euro export credits for January 15 1999 to February 14 1999.

Euro	4.15
up to 5 years	4.33
5 to 8.5 years	4.53
more than 8.5 years	

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rate when fixing at bid. Interest rates may not be fixed for more than 120 days.

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The Leading Company in the Niche Market for the Financing of Japanese Small Businesses

High growth and profitability

While the Japanese banks have their severe bad loan problems, there is one outstanding high growth and high profitability finance company that is attracting the attention of foreign investors. It is quoted on the First Section of the Tokyo and Osaka stock exchanges and is the leading company in lending to small businesses. Its name is Nichiei. For the past fifteen years it has maintained an unbroken record of higher revenues and higher profits. It enjoys a high ROE on account of its unique management philosophy and acquired business know how. The banks have proven themselves incapable of meeting the financing needs of small businesses and Nichiei now has an entrenched position in that market. For Nichiei, the programme of financial services liberalisation, Japan's Big Bang, is an opportunity.

Fifteen years of unbroken growth

Japan is currently seeing the worst business conditions post-war and the interim results to September 1998 for many companies have made very unhappy reading. In contrast, Nichiei reported revenue up 8.5% and current profit up 11.6% on the previous September 1997 interim.

Despite the adverse macroeconomic climate since the collapse of the credit bubble, the growth for the five years to March 1998 shows the balance of outstanding lending up 19.6% pa, operating revenue up 16.2% pa and current profit up 26.1% pa. ROE for the year to March 1998 was 16.9%. One may say that Nichiei shows resilience in adversity.

The history of Nichiei is entwined with the business career of the founder, Mr Kazuo Matsuda. Mr Matsuda had originally worked at two banks for a period of 18 years, before starting his own money lending firm in 1964. That firm was incorporated in 1970 and has become the Nichiei of today. Mr Matsuda talking about why he started the money lending firm at that time said, "While I was working at the banks, I thought that banks had got smaller businesses wrong. Bank management would only think about security and protecting the interests of the depositors. Smaller businesses had to provide collateral, which, of course, they were often unable to do. So, however good the underlying business was, just for the want of comparatively small amounts of funds all growth prospects were blocked off. Naturally, I started to think about ways to provide the necessary funds without any collateral requirement."

Kazuo Matsuda, President and Chief Executive Officer

When Mr Matsuda started his money lending firm in the 1960's, Japan was in its period of high economic growth and financially there was a chronic shortage of funds and this had a major impact on the firm's method of business. On his own for the first time, Mr Matsuda started to discount commercial notes — a kind of small business bill of exchange widely used in Japan. The problem was raising funds: the banks were not interested. Mr Matsuda hit on the idea of taking small loans from the private savings of business owners in his native city of Kyoto. "The circumstances obviously meant that I could hardly afford to have any defaults! That is the origin of the strict credit control system at the base of Nichiei's success."

Having only just managed to survive by this unorthodox approach, another problem hove onto the horizon: the first oil crisis of 1973. It caused a sudden downturn in the economy when the credit famine became a credit feast with the large banks suddenly seeking outlets for their excess funds.

"One moment the banks were only interested in lending to large companies and the next moment they were switching their attentions to the small businesses market and note discounting. Nichiei's business started to dry up and I had to think about downsizing." That was when Mr Matsuda hit on the novel idea of lending on promissory notes: lending without any collateral, but nevertheless managing to control the credit risk. The discounted guaranteed promissory note product was launched.

Thorough-going credit control

Guaranteed promissory note discounting accounted for 87.7% of operating revenue last financial year and is the company's key product. The typical small business client has a capital of ¥50m or less and turnover of ¥500m or less. Such businesses see dramatic swings in their turnover and there are periods with a strong demand for short-term working capital and there are periods of adverse conditions with a heightened likelihood of default.

The basic management philosophy is the "wide and shallow" principle of lending small amounts to a large customer base. Guaranteed promissory note lending is always subject to a ceiling on lending to any one client of ¥13m and a ceiling on the term of any one lending of 12 months. Nichiei lends to the borrower, who is the issuer of the promissory note, the amount of the note for the term of the note. Nichiei presents the note to the Clearing House on maturity and the note is cleared for cash. Those clients wishing to continue to use Nichiei's services cannot roll over: they must submit themselves afresh to the credit control procedures. Through this repeated process a strict control can be maintained over the credit risk involved.

Nichiei established a 100% owned subsidiary, NSHC, in 1991. The function of NSHC is to provide guarantees for the loans on notes and to recover loans in default on a stand-alone basis. "With this arrangement, loans in default immediately get isolated from the general loan book of Nichiei and there is a high level of transparency in consequence. Defaults get segregated on the loan book of NSHC. NSHC is then clearly responsible for settling the loan with Nichiei and dealing with loan recovery. NSHC has proven itself able to operate at a profit out of the guarantee fee and loans recovered."

Reduced bank credit lines an opportunity

The banks are attempting to shrink their balance sheets and credit lines are being reduced. The funding position of smaller businesses is being aggravated and bankruptcies are rising. In these circumstances, Nichiei is tightening its credit control procedures, while searching for new quality clients. "We must be very aware of the heightened risk of default and procedures must be very much tightened. As a matter of policy, we are trying to reduce our dependence on promissory notes and increase our exposure to the lower risk commercial note. The business opportunity is in expanding our discounting of commercial notes." Commercial note discounting is lower margin business than promissory note discounting, but this does attract new clients who may then move across to the promissory note product. There is an element of business development expense in the changing exposure.

Marketing is resolutely proactive with an expansion of the branch network and much direct contact with potential clients. Last year 18 new branches were added and there are 200 branches and some 1,000 salesmen. In the current financial year 20 branches are being added. Each salesman is given a list of 500 potential clients and visits these to solicit new business. The Nichiei Research Division is responsible for analysing the information available from the leading credit research companies and, applying Nichiei criteria, for updating the salesman lists every three months.

The impact of Big Bang is to reduce the barriers that have existed in the financial services industry and generally promote competition. The financing of smaller businesses will be no exception. "Our strength is in the direct and very careful marketing of Nichiei services to potential clients. The considerable know-how built up over the years cannot be acquired by new entrants so easily. We will remain in the lead. Also, of course, the regulations which have hampered our own fund raising activities will be liberalised."

Securitisation of commercial note raises funds overseas

Nichiei's business is entirely domestic, but fund raising activities have no frontiers. In October 1997, Nichiei raised ¥43.0bn in an equity issue to institutional investors in North America and Europe. In December 1998, there was the announcement of the first securitisation fund raising to be undertaken. Commercial notes held by Nichiei were transferred to a special purpose company, NMU Asset Funding Corp, and NMUAFC then issued commercial paper in the US market against the security of the commercial notes. This deal was arranged by a leading non-Japanese bank. Nichiei was able to raise ¥50.0bn at a funding cost of just 1.6% pa.

"We did well with our equity issue overseas, but the securitisation of commercial notes offers another fund raising route. We intend to increase our fund raising activities overseas." A one for ten bonus issue was made to shareholders of record as at end-March 1998 and a dividend increase of ¥5 was made (annual dividend rising from ¥65 to ¥70). "We should certainly never forget our loyal shareholders."

Nichiei Business Trend 1993/94 to 1997/98 (consolidated)

Item \ Years ending March	1993/94	1994/95	1995/96	1996/97	1997/98
Lending outstanding (¥bn)	280.7	330.1	371.7	434.1	484.5
Operating revenue (¥bn)	68.0	85.8	100.6	115.9	133.9
Operating profit (¥bn)	26.8	35.4	45.7	56.0	64.3
EPS (¥)	172.3	242.5	317.6	395.0	421.4
Bad debt ratio (%)	3.2	3.6	3.7	3.4	3.6

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ASIAN CRISIS REPORT REJECTS CRITICISM OVER ADVICE TO TIGHTEN MONETARY POLICIES

IMF denies harsh policies

By Stephen Fidler in Washington

The International Monetary Fund has rejected criticism that it forced unduly harsh monetary and fiscal policies on devaluation-hit Asian governments.

A new report into the Asian financial crisis places the Fund at odds with the World Bank, where senior officials led by Joseph Stiglitz, its chief economist, have argued that the high interest rates advised by the Fund have been counterproductive because they undermined already weak economies.

The Fund rejects this. Jack Boorman, director of the Fund's policy development and review department, said the study concluded that if monetary policy had been tightened earlier and more aggressively in Thailand, Korea and Indonesia, the results would have been better. "On monetary policy, we have no apologies for what was done," he said.

"Directors generally endorsed the tightening of monetary policy recommended in the programmes in order to arrest and then reverse the excessive depreciation of exchange rates that had occurred," says a summary of a board meeting which discussed the report.

The report's conclusions are likely to be reflected in the advice the Fund gives to Brazil as it responds to last week's devaluation of the Real. Indeed, after weekend talks with the IMF, Brasilia raised interest rates sharply on Monday night in an attempt to stop the further slide of the real.

The study says the net effect of fiscal policy in Korea and Thailand was expansionary, and in Indonesia – though contractionary – it only partly offset a "massive" increase in the fiscal deficit resulting from a weakening economy.

The report argues there was little practical alternative to floating currencies in the heat of the crisis. It also says efforts to force the private sector to support programmes – particularly one that was perceived as heavy handed – "could both precipitate greater capital flight from the countries concerned and unsettle conditions for market access by other countries both in and beyond the region".

It admits that the IMF "like most observers" misread the depth of the recessions that would be provoked in Asia. It said it did this in part "because of concerns that realistically pessimistic forecasts would have exacerbated the situation..."

Violence feared as Indonesia ends fast

There is still no clear sign of recovery or political stability, writes **Sander Thoenes**

At least Indonesia's holy month of Ramadan ended peacefully.

In contrast with the period of fasting itself, there were no reported incidents as thousands of Indonesians toured the streets on pick-up trucks and motorcycles until the early hours of yesterday morning, beating drums incessantly. A morning prayer then began the two-day Eid ul-Fetr, which marks the end of the Ramadan holiday.

Millions of Indonesians, most of them Moslem, visited their family homes while dignitaries filed through the homes of President B.J. Habibie and his ministers to pay their respect.

However, the fasting month has been marked by rioting and clashes that have left at least 30 dead. More than 17 were killed in Aceh, the restless western tip of Sumatra, and parts of Java and Sulawesi were rocked by violence as well.

Violence during Ramadan is unusual. Even last year, as prices rose sharply and the rupiah hit an all-time low, Ramadan was quiet. "It is hard to find another such reference in history where Moslems desecrate their holy month by trying to kill each other," the Jakarta Post said.

The violence during Ramadan has made many fear worse to come when people return to work on Monday. "We need to think in security terms," a western diplomat said.

Indonesia's crisis is 17 months old and even if it has hit bottom, it is nowhere near recovery. Many Indonesians have borrowed money to celebrate the holidays, and many will not be able to pay it back.

"People are at the end of their savings," said Jusuf Wanandi, a political analyst. "Crime rates are going up. The sense of self restraint is almost nil."

The collapse of the authoritarian regime of former President Suharto has also discredited and demoralised the police and military on which it depended, causing law and order to deteriorate.

"Just last week villagers invaded our factory, burned down the security guard's office and demanded Rp150,000 ($17) each," a textile company official said. "We gave them some food but what will we do next?"

A US congressman said the US military were reviewing evacuation plans for US citizens in Indonesia, seven months after they airlifted hundreds from Jakarta during the May riots which brought down Mr Suharto. However, a US diplomat yesterday strongly denied evacuation plans were in the making.

Companies have beefed up security as well, hiring consultants to prepare for evacuation and security officers to guard their factories.

Indonesian Moslems gather yesterday for dawn prayers to greet the Eid ul-Fetr festival at the end of the fast of Ramadan — Reuters

Some have even dug moats around their compounds.

Next week student protesters plan to take to the streets again to push parliament to adopt three political laws, needed to prepare for general elections in June, without clauses deemed favourable to the ruling élite. These would guarantee seats to the military, allow bureaucrats to join political parties and count the vote at the district level, which should favour the dominant Golkar party, which has a strong regional network.

Nurcholish Madjid, one of Indonesia's two most influential Moslem scholars, said he expected Mr Habibie and General Wiranto, chief commander of the armed forces, to allow a democratic vote.

"It is much safer for the government to have a fair election," he said. "Otherwise there would be a wave of upheaval."

Obuchi in shift on North Korea impasse

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, the Japanese prime minister, yesterday opened a crucial session of the Japanese Diet by pledging to improve relations with key neighbours and raise Japan's status on the world stage.

"Japan must be respected by the international community and fulfil responsibilities commensurate with our position in the world," Mr Obuchi said in his policy speech.

He indicated that Tokyo was prepared to improve relations with North Korea, with which it does not have diplomatic relations. Relations with North Korea deteriorated significantly last summer, after the launch of a North Korean rocket across Japanese territory.

"Japan is ready to achieve improvements in its dialogues and exchanges with North Korea, provided it indicates that it is ready to take a constructive attitude," Mr Obuchi said.

The policy speech represents a significant shift from the more unyielding stance Japan has taken towards North Korea in the past five months. Japan insists the North Korean rocket was carrying a missile, but North Korea maintains it was carrying a satellite. After the launch of the rocket, Japan suspended what little contact there was between the two countries.

The government halted charter flights to North Korea which were used by Korean residents to channel funds to relatives in the North and suspended its contributions to an international programme aimed at providing North Korea with alternative fuel to halt its nuclear programme. Concern has mounted recently that North Korea is preparing to launch another rocket.

The softening of the Japanese stance comes as the US, China, South Korea and North Korea are meeting in Geneva to try to improve relations. However, Pyongyang's stormy relations with the rest of the world were highlighted yesterday by North Korea accusing Washington of maintaining a policy of trying to destroy the communist regime.

A Korean Central News Agency report denounced William Cohen, US defence secretary, for his recent discussions with the military and political leaders of South Korea and Japan as a "reckless" move aiming at stifling North Korea militarily.

Mr Obuchi, in his address to the Diet, also expressed a strong desire to improve frequently fraught relations with China and Russia.

Mr Obuchi's speech came as his popularity rating appeared to improve. A poll published yesterday indicated that his approval rating has risen to 32 per cent from 26 per cent earlier in his term.

Rating agency offers Seoul investment grade

By Edward Luce, Capital Markets Editor

South Korea yesterday became the first casualty of Asia's financial crisis to cross back into the investment grade category of credit ratings.

The upgrading by Fitch IBCA, the rating agency, is expected to be followed by Standard & Poor's and Moody's Investors Service, the two leading international agencies. Fitch said that Korea had seen an "unprecedented recovery in external liquidity" over the last 12 months.

The turnaround, which followed the country's near-collapse into bankruptcy in late 1997, meant the possibility of another dramatic flight of capital from Korea was "remote", said the agency.

Although Korea had relatively low levels of external sovereign debt, investors fled the country in late 1997 over fears that its banks and corporations would be unable to service short-term US dollar debt in the wake of the steep depreciation of the won against the dollar.

However, in the aftermath of the International Monetary Fund's decision to provide an emergency bailout package in early 1998, the country had dramatically improved its current account position.

The swing from deficit to surplus achieved since January 1998 totalled 16 per cent of gross domestic product – far in excess of the improvements achieved by Mexico after the "Tequila" crisis in 1994. Similarly, the Seoul government had successfully replenished its foreign exchange reserves, which rose from a low point of $8bn last January to about $50bn this month.

South Korean bond prices rose sharply yesterday in response to the upgrade, with the spread – or risk premium – over US Treasury bonds tightening from 3.5 percentage points to about 2.6. Traders said other Asian bonds, including Philippine government debt, also rallied yesterday.

However, Fitch IBCA warned South Korea still faced hard problems including the restructuring of its severely indebted corporate sector which could take two to three years to resolve.

Thailand is also expected to receive credit rating upgrades this year. But Indonesia, the worst affected Asian economy, is expected to remain in the sub-investment-grade category.

Chinese talks aim to avert business failures

By James Kynge in Beijing and James Harding in Shanghai

China's top financial officials yesterday began a meeting to decide monetary policy for 1999 and avert a wave of failures among 244 international trust and investment corporations (itics).

The annual meeting of the People's Bank of China, the central bank, was also expected to address the risk of renewed capital flight after Brazil's flotation of its Real.

The decision to deal with the so-called itics hardly comes too soon. This month's bankruptcy of Gitic, the investment arm of the Guangdong provincial government which was closed down last year with debts of $4.3bn, has tightened a credit squeeze from foreign creditors to the entire itic sector.

"It is almost impossible to borrow any new long-term loans. Short-term money is still possible. But not all itics can get new borrowing, even on the short term," an official at Shanghai International Trust and Investment Corporation (Sitico) said.

Because many itics are using short-term borrowing to service long-term debts, the credit squeeze has resulted in payment difficulties and defaults.

Officials say the itics are to be restructured and merged and some may receive capital injections from the state to enable them to survive. Some analysts believe the number of itics could fall from 244 to around 40.

But several questions remain unanswered. Foreign bankers said that some itics may have "vastly over-extended" themselves in terms of foreign debt. It is still possible that a few may be closed rather than merged, raising the risk of losses for foreign creditors.

The latest signal of ebbing confidence among foreign bankers has come from Royal Bank of Canada, understood to be trying to shut its Shanghai branch.

Brazil's decision to float the Real has refocused attention in China on whether the renminbi or the Hong Kong dollar may also be forced to devalue. Such speculation increases the risk of a resurgence in capital flight, in spite of Beijing's repeated assurance that it will not devalue.

The three-day central bank meeting, to be presided over by Wen Jiabao, a vice-premier in charge of financial restructuring, was expected to emphasise foreign currency controls to prevent an exodus of capital.

The meeting may also unveil plans to recapitalise the "big four" state banks by setting up asset management companies into which some of the banks' bad assets are to be transferred. As plans stand, each of the big four – Construction Bank, Industrial and Commercial Bank of China, Bank of China and Agricultural Bank – are to have their own asset management company.

Internet café clampdown

By James Kynge in Beijing

China has ordered all internet cafés and bars to register with local authorities and provide lists of customers, in a move that highlights official unease over the explosion of internet use.

The number of internet users in China is estimated to have doubled in the last six months of 1998 to 2.1m and could reach 10m by the end of this year. An increase in Chinese-language material on the internet has meant that items which would normally have been censored are now available to a broad audience.

The official media said yesterday that the the move was intended to stop the spread of pornography and gambling, which were "posing a threat to the hearts and minds of our youth".

Internet cafés in Beijing are frequented mainly by students who sit, satchels clasped between their knees, searching for information on pop stars or sports results from the US.

Registration might scare them away, said owners, because many came to the cafés without permission from their parents. Others may fear their name could find its way on to a blacklist.

The case of Lin Hai, a Shanghai computer engineer who stood trial in December for subversion after being accused of supplying Chinese e-mail addresses to dissident groups in the US, is fresh in many minds. His wife said yesterday another hearing was to be held today.

Official attitudes to the internet are crucial. Two leading Chinese internet portal companies plan to list on overseas stock markets and others are keen to attract foreign venture capital – which would be scared away by official disapproval.

At present, a delicate equilibrium has been found. Sohu, China's top internet portal company, has agreed that no pornography or other undesirable sites will be given a place in Sohu's directory.

But it is less clear what China can do about Chinese-language sites on portals based overseas.

For now, the government appears broadly supportive. "The government really wants to develop the internet. The advantages outweigh the disadvantages," said Zhao Bo of the ministry of information industries.

LDP group urges property cash boost

By Michiyo Nakamoto

Japan's ruling Liberal Democratic party is considering injecting Y20,000bn ($175bn) into the country's ailing real estate market in an effort to stimulate activity and speed up disposal of the bad debts weighing down the financial sector.

A group of LDP parliamentarians is proposing the use of the government funds to buy up unused or under-utilised property.

Okiharu Yasuoka, an LDP parliamentarian in the Diet's lower house, said to deal with the bad debt problem and revive the property market "there may be a need for further budgetary measures. We have to think more aggressively about what the government can do."

The group of parliamentarians supporting the plan – led by Koji Kakizawa, a former foreign minister – hopes that a decision can be made on the scheme by the spring.

The plan faces strong resistance from the Finance Ministry, which is concerned about the rising level of Japanese government debt.

But there is a feeling in the LDP that given the importance of Japan's economy for the rest of Asia and for the world economy, the government needs to do all it can to engineer a revival.

Mr Yasuoka, principal architect of the LDP's "total plan" to revitalise the financial sector, which was adopted last year and included measures to boost activity in the property market, acknowledged that more needed to be done to revive the property market.

Japanese land prices have fallen an average of 60 per cent from the peak in 1990, according to an index of real estate values in the six largest cities. Commercial property values are 77 per cent down from the peak, while residential values are 53 per cent below their 1990 peak.

Financial Times Surveys

Isle of Man

Thursday April 22

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MONEY LAUNDERING INTELLIGENCE SERVICE CHIEF EXPRESSES FEARS OVER POLICING OF SINGLE CURRENCY

Criminals 'will profit from euro'

By John Mason, Law Courts Correspondent

Criminals will profit from the euro unless international co-operation by police, banks and other bodies improves, the UK's National Criminal Intelligence Service, warned yesterday. The UK is one of four European Union states which did not adopt the single currency at its launch on January 1.

The NCIS, which gathers information about international financial crime, warned at a press conference in London that the new European currency could be accompanied by a rise in counterfeiting, money-laundering and attempted bank robberies.

It believes introduction of the euro will also make it easier for criminals to launder the proceeds of crime. With fewer transactions necessary, there will be less of an asset trail for investigators to use to track down illegal funds. There is concern about the potential criminal use of large-denomination notes such as €200 ($234) and €500 notes. Wayne Smith, head of the NCIS's specialist crime unit, called for a limited amount of high denomination euro currency to be introduced.

He said German police had already identified national responses seeking to combat international criminality. "The key issue is co-operation. The most effective response is to adopt a multi-agency approach, involving not only the co-ordination of law enforcement agencies but also the issuing banks, security printers and paper makers so as to enhance a strategy of prevention, education, arrest and disruption," he said.

The NCIS believes the euro will present new opportunities to counterfeiters, particularly when people are getting used to the new notes and their security features. Italian mafia gangs have already begun forging euros based on initial designs for the new notes.

Physical security will also present a problem with the amounts of cash in circulation, either held in banks or being transported by road, increasing when the new notes are introduced in 2002. Solutions being considered include storing notes at military bases.

Although it is not expected that the introduction of the euro will lead to more criminal activity by people such as drug barons, the amount of "laundered" money is expected to increase.

Financial regulators soon to work together

By Deborah Hargreaves in London

The Financial Services Authority, the super-regulator, will move to its new Canary Wharf headquarters in east London at the end of the month.

Nine existing regulators – with more than 2,000 employees – will be brought under the same roof for the first time.

The super-regulator is the government's attempt to consolidate the previously fragmented system of financial regulation in the City of London.

But trying to merge the different bodies into a seamless whole is proving a tense task.

"There's no guidance on how to do nine-way mergers. There isn't a book on it, although I might write one one day," said Howard Davies, the FSA chairman.

Staff from the different organisations have started with deep-seated prejudices about each other. Those from sharp-shooting City regulators such as the Investment Management Regulatory Organisation are disparaging about their colleagues from the Bank of England, the UK central bank.

Mr Davies accepts that people will take time to learn new ways. "I wouldn't be surprised if some of them were finding it a bit difficult," he said. "I'm unrepentant about it. They've just got to get used to it."

Some regulators feared that the process of combining the nine organisations would lead to rapid staff departures. That fear seemed justified as turnover reached an annualised rate of 22 per cent in the middle of last year, though this slowed to a rate of just over 8 per cent in December.

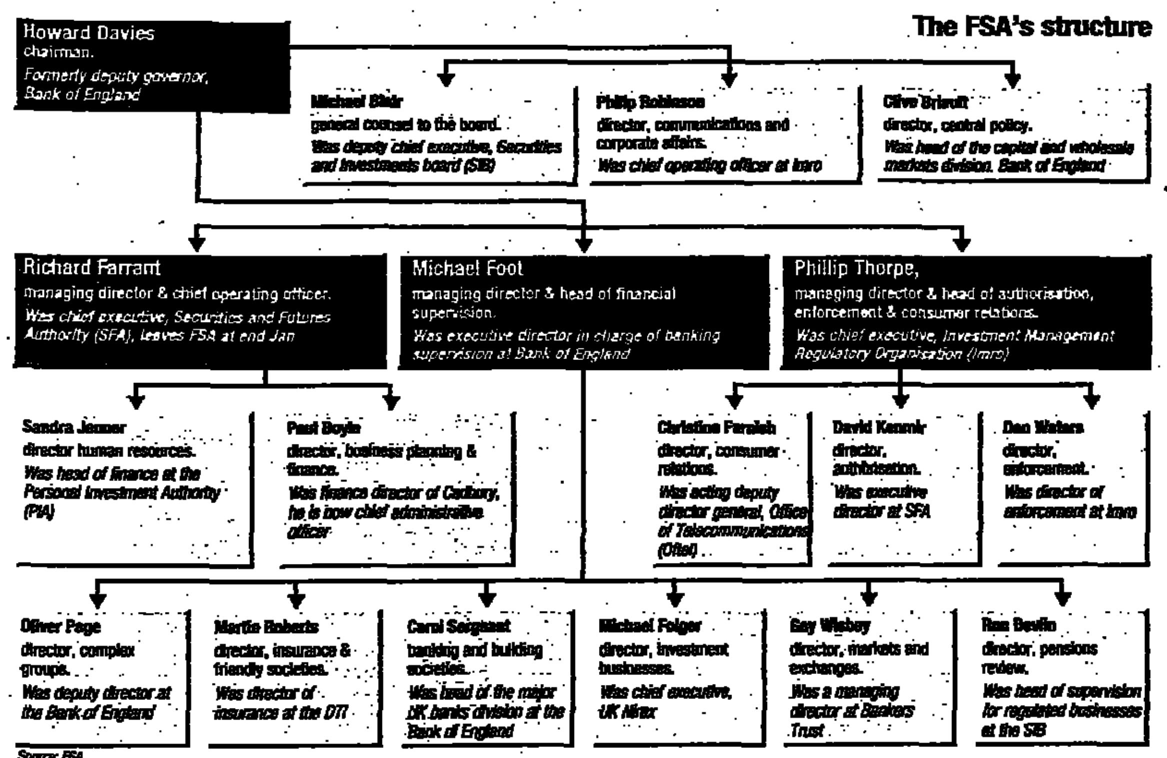
Beyond the internal issues lies the more substantial question of whether the single authority is delivering the promise of more effective legislation. Financial institutions worry that the internal wranglings could distract regulators.

The efficiency of the move into one building has won unreserved applause from staff. "This is really a Stalinist environment," says Mr Davies. "The good side of Stalinism is that it can deliver major projects on time and within 0.1 per cent of the price."

● The FSA will be required by law to have a majority of non-executive directors on its board, the government announced yesterday. Patricia Hewitt, economic secretary to the Treasury, said this would strengthen the FSA's accountability. The new bill giving the FSA responsibility for the whole of UK financial regulation will also include a requirement for practitioner and consumer panels and an annual open meeting.

Mr Davies said: "Parliament is being asked to give us extensive public powers, and it is right that we should be properly held to account for how these are used."

The FSA's structure



Source: FSA

MP says he may name Omagh bomb suspects

By Jimmy Burns in London

A Conservative MP is threatening to name individuals allegedly involved in the bombing of the Northern Ireland town of Omagh last year and continuing "punishment beatings" in the region.

Andrew Hunter claims to have reliable information including the name of a person suspected by security forces of being behind the Omagh bomb, which killed 29 people and injured more than 350. The MP, who has taken legal advice, said last night he might attempt to name individuals in the House of Commons in London today. Rules of parliament shield statements made in the House against libel suits.

"I am strongly opposed to the government's handling of the of the violence and it does not worry me that the government's legal advice is different," he said.

Mo Mowlam, the chief Northern Ireland minister in the UK government, and Sir Ronnie Flanagan, Chief Constable of the Royal Ulster Constabulary (the Northern Ireland police chief), urged MPs not to use parliamentary privilege in the way planned by Mr Hunter.

They insisted that such a move could prejudice attempts to bring those responsible for the alleged crimes successfully before the courts.

However, the threatened move reflects growing frustration felt among sectors of the Conservative party in England and pro-British parties and some community groups in Northern Ireland over the apparent immunity of suspected terrorists.

They are angry at the lack of results in the Omagh investigation and the continuing "punishment beatings" by republican and "loyalist" groups in apparent breach of the April 1998 peace agreement secured in talks chaired by George Mitchell, the former US Senate majority leader.

Vincent McKenna, an ex-IRA member who is now spokesman for the Northern Ireland human rights group Families against Intimidation and Terror, said victims and their families were reluctant to give evidence because of fear of further reprisals.

Former minister admits committing perjury

By John Mason, Law Courts Correspondent

Jonathan Aitken, the former Conservative cabinet minister, yesterday admitted in a London court that he had committed perjury and perverted the course of justice during his failed libel action against the Guardian newspaper in 1997.

Mr Aitken pleaded guilty to two charges relating to the false account he gave to the High Court over his stay at the Paris Ritz in 1993 and who paid for his hotel bill.

He denied two other charges, one of conspiring to pervert the course of justice, and one of tending and intending to pervert the course of justice. These charges will not be proceeded with. Mr Aitken was remanded on bail until a hearing later this year when he will be sentenced.

The perjury charge to which he pleaded guilty concerned an untrue witness statement which claimed that his wife Lolicia had paid FFr4,257 ($460) towards his bill at the Paris Ritz.

The charge of tending and intending to pervert the course of justice to which Mr Aitken pleaded guilty concerned a witness statement drafted by him in the name of his daughter Victoria which claimed that she and Lolicia Aitken had travelled by ferry and train to Paris on September 16 1993 and that on September 19 Victoria had telephoned her grandmother. Both witness statements were submitted as evidence to the High Court during the libel action.

One charge Mr Aitken denied alleged he and Said Ayas conspired with Lolicia Aitken to pervert the course of justice by signing witness statements that were false.

Tanker owners may sue fined port

By Tim Burt in Stockholm and Juliette Jowit in Cardiff

The Norwegian owners of the Sea Empress, the oil tanker involved in one of Britain's worst marine pollution disasters, are considering launching a multi-million dollar compensation claim against the port authority that admitted liability.

Sea Tankers, the Cyprus-based company controlled by Norwegian shipping entrepreneur John Fredriksen, may launch a claim to recover repair costs and lost revenues for the tanker, which spilled 72,000 tonnes of crude oil after running aground three years ago at the entrance to Milford Haven in south-west Wales.

Last week, Milford Haven Port Authority was fined £4m ($6.6m) after pleading guilty to a pollution charge. Large stretches of coast were polluted by the spill, which cost some £60m to clean up.

However, Ted Sangster, general manager of Milford Haven Port Authority, yesterday said the authority had pleaded guilty to the charge under the Water Resources act because it owned the area where the incident happened, but that: "There was no admission of negligence, and indeed the judge said this a number of times, it was strictly liability within the act."

Sea Tankers, Mr Fredriksen's privately-owned shipping company, is understood to have appointed Ince & Co, the London-based international maritime law firm, to assess a possible claim.

Neither Sea Tankers nor Frontline, the listed Norwegian tanker company which bought the ship 18 months ago and in which Mr Fredriksen is the largest single shareholder, would comment on the claim. But a spokesman for Sea Tankers confirmed: "We are considering the possibility of seeking compensation."

Repairs to the tanker were $30m and charter earnings at the time were $26,800 a day.

Yemen to protest at 'terrorist link with England'

By Robin Allen in Dubai and Jimmy Burns in London

Yemen is threatening a diplomatic row by claiming that Britain is colluding with Saudi Arabia to destabilise it.

A senior Yemeni official yesterday said his government was preparing a formal protest over what it claims was prior UK government knowledge of alleged terrorists sent from the UK who have been operating with Saudi support.

Last month, six men, four of them British and one with dual British-Yemeni nationality, were arrested in Aden, allegedly carrying explosives and Chinese-made shoulder-fired rockets.

According to Yemeni officials their intention was to attack a church, the British consulate and a hotel in Aden over Christmas.

The immediate release of the six was the main demand of a terrorist group, the Aden-Abyan Islamic Army, led by Abu Al-Hassan, who kidnapped 16 western tourists on 28 December. A subsequent shoot-out with security forces resulted in the death of three Britons and one Australian.

The Yemeni allegation was strongly denied last night by the Foreign Office in London. It said: "The Yemeni government is entitled to its opinion but it is not correct. We do not put the interests of one country above the other. Our interest is to stay within the law."

It said it had no prior information about the group's apparent plans or about the alleged bombing campaign in Yemen.

According to the Yemeni official, videotapes found in the possession of the six detainees in Aden showed scenes of Islamist camps in England where militants were trained in the use of explosives and sabotage.

One of the organisers of the camps is reported to be Abu Hamza al-Masri, a prominent Egyptian cleric at a London mosque who is related by marriage to several of the British detainees.

Mr Hamza has denied any involvement in bomb-making activities but is thought to have been under surveillance, and is being investigated by British police.

For the last five years, Yemen-Saudi relations have been bedevilled by failure to negotiate an end to a 64-year old dispute over demarcating some 1,500 kms of land border. The area has seen several recent clashes between Yemeni and Saudi troops.

Senior Yemeni officials insist that public incitements to sectarian hatred attributed to Mr Hamza and others could not be made with impunity from British law were it not for the government's prior agreement.

NEWS DIGEST

SCOTLAND

Companies spurn idea of independence, says poll

Only a small minority of Scotland's largest companies support the idea of Scottish independence, according to an opinion poll published yesterday. Of 100 companies asked, 75 said it would make things much worse for business, and a further 17 said it would make things a little worse. Three companies said independence would make things much better for business and three others said it would make things a little better.

The survey was conducted by MORI for the Scottish Industry Forum, a business organisation which has good relations with the Labour government but says it has no political affiliations. MORI surveyed companies from the top 400 of the Scottish Business Insider's annual list of the largest 500 businesses in Scotland.

The survey will be seen as a blow to the Scottish National party which supports independence and which has announced policies which it says are favourable to business. However, the SNP said the survey was a "put up job" because the Scottish Industry Forum had close links with the Labour party.

John Swinney, SNP deputy leader, said the survey had covered only the bigger companies. "A lot of small businesses are totally comfortable with the idea of independence," he said. **James Buxton, Edinburgh**

● A Wrangler jeans factory in Falkirk, Scotland, is to close, VF (the owner based in Greensboro, North Carolina), said yesterday. Workers said they had been told manufacturing would switch to Turkey because their costs were too high.

CONSERVATIVE PARTY AND EUROPE

Pro-euro MEPs aim for split

An attempt to split the Conservative party into a pro-European party and a Eurosceptic one will be made in the coming months by two members of the European parliament, who will today announcing their resignations from the party, the largest UK opposition party.

John Stevens and Brendan Donnelly handed in their resignations last night because of their opposition to the Conservatives' anti-euro policy. "Opposition to British membership of the single currency is totally at odds with the national interest," Mr Stevens says in his letter to William Hague, the party leader. The letter also makes clear his hopes of setting up a new pro-European splinter party. "It is because I recognise the strength of your convictions on the euro that I believe you must be opposed in every possible way," it says. Mr Stevens and Mr Donnelly are being supported by a group of former special advisers to the last Conservative government, who do not wish to be named at the moment. **Robert Peston, London**

THE ECONOMY

Inflation rises above target

Inflation rose above the government's target last month for the first time since July, government figures showed yesterday. The underlying measure, RPIX, which excludes mortgage interest payments, rose from the Bank of England [the UK central bank] targeted annual growth rate of 2.5 per cent to 2.6 per cent in December, the Office for National Statistics said.

For once, it was the goods component of the index which accounted for the increase in inflation. The strength of sterling, combined with sharp falls in commodity prices and the cost of raw materials, has served to hold inflation in check. Some economists suggested this effect could be diminishing. Services inflation, which has been rising steadily, was unchanged at an annual rate of 3.5 per cent. Meanwhile, the Engineering Employers' Federation offered evidence of an easing in wage inflation, saying that pay settlements fell from 2.7 to 2.6 per cent in the three months to December. **Christopher Adams, London**

ENTERTAINMENT

Dance label signs Sony deal

Xtravaganza, a UK record label specialising in dance music, has signed a licensing deal with Sony Music, part of the Japanese entertainment and electronics group. The deal forms part of Sony's strategy of securing distribution and licensing agreements with specialist record companies.

Under the terms of the Sony deal, Mr Gold, who owns the rights to the Xtravaganza name, will be responsible for running and relaunching the label. It will make its own distribution arrangements in the UK, but Sony will distribute its music elsewhere. **Alice Rawsthorn, London**

INTERNET

UK users 'pay most for access'

Nordic countries have the lowest internet charges in western Europe while users in Britain pay the highest, according to figures from Datamonitor, the market research company. In spite of the launch of "free" internet services, many of Britain's 2.02m home internet users are still paying more for internet access than their counterparts elsewhere in Europe.

Household internet subscribers in the UK pay average monthly subscription charges of $25.44, says the report. Germany, Europe's biggest internet market with 4.56m home subscribers, and the Netherlands with 884,000 subscribers, are the second and third most expensive markets respectively. The main reason for the high German figure is that users spend 15 hours on average online every month, compared with a European average of 13.3 hours.

While most internet service providers in Britain charge a flat monthly rate, some charge according to usage.

At the end of last year, 12.5m households had internet access in Europe, almost double the figure a year earlier. Datamonitor predicts there will be 43m internet households in Europe by the end of 2003. **Paul Taylor, London**

Internet access costs

	Average subscription costs ($)	Subscribers ('000)	Average time online per month (hrs)	Total time per month (hrs '000)
UK	25.44	2,019	11	22,209
Germany	24.14	4,557	15	68,355
Netherlands	23.16	884	15	13,260
Austria	22.76	252	9	2,268
Belgium	21.07	240	15	3,600
Switzerland	20.88	467	16	7,472
Greece	20.77	20	29	580
Italy	15.35	605	11	6,655
France	14.85	982	9	8,838
Spain	10.85	397	11	4,367
Finland	9.67	443	15	6,645
Norway	8.26	334	19	6,346
Denmark	8.38	351	10	3,510
Sweden	5.29	924	13	12,012
Average	20	12,475	13.3	166,117

Source: Datamonitor

Ex-porter's private line leaves the image of misery behind

One of the country's worst railways has been transformed by 'good old-fashioned management', reports **Marcus Gibson**

Ken Bird started his career on the state-owned railway network as a junior station porter. His toughest time was as operations manager for the once notorious "misery line" linking Fenchurch Street on the edge of the City of London to the commuter towns of Tilbury and Southend to the east of the capital.

Now the line has been privatised and is owned by LTS Rail, of which he is managing director. He is now the longest-serving managing director in the privatised rail sector.

In charge of 800 staff, a schedule of 343 trains a day and a comprehensive development programme, he has overseen the transformation of the line into a showpiece for railway modernisation.

Mr Bird, 52, knows the line and its failings better than anyone. In 1978 he was appointed a station manager on it but left to work in other areas. He returned six weeks before LTS was privatised in 1996.

He remembers joining the state network years before. "I went for my medical – and then immediately went to join a strike."

By the time Mr Bird became operations director at Fenchurch Street in 1984, the line had become a byword for failure. "It was bad," Mr Bird sighs. "The depth of feeling against us was immense."

Between 1982 and 1990, no money had been spent on the line in spite of record passenger numbers.

The revival has come about through what Mel Holley, deputy editor of Rail magazine, calls "good old-fashioned railway management ... especially its attention to detail".

When LTS took over the franchise, security was the biggest problem. The company employed guards and installed video systems, cutting vandalism by 70 per cent and assault by 80 per cent. Punctuality has greatly improved, but this still left ancient stations and trains. Many of the current 40-year-old trains are to be replaced this summer with 44 new 160kph train sets made by Adtranz in England.

Overall, efficiency has been improved and the driver cost base reduced sharply. The traditional dependence on overtime has been broken while basic salaries were raised from £11,000 ($18,150) a year to £23,000 for a 37-hour week. Previously, a 50-hour week had been typical.

In December 1997, LTS launched Rail Travel Services, a one-stop rail ticket purchasing facility based at a call centre in Southend. It allows companies to order tickets direct for their staff as well as avoiding the tortuous process of getting a season ticket.

RTS expects ticket sales to have reached £18m in its first trading year to December 1998, and Mr Bird looks forward to the days when companies fund the full cost of staff season tickets via his call centre rather than spend similar amounts on cars for their employees.

A second move has been to offer 40 per cent reductions on weekly Early Bird tickets to passengers travelling before 07h00 in an effort to reduce peak hour load and cut into the market held by commuter bus companies.

Mr Bird perceives hard benefits. "If I can move 1,000 passengers off a peak train, I could save on three or four train rentals," he says. "And why are there no incentives for companies to get their staff in earlier? There should be."

Yet it is an object lesson in railway management that it is quite possible to spend £500m upgrading a railway but not get trains to run much faster. The line's large number of stops makes higher speeds difficult to achieve, and the new trains are unlikely to shave more than a few minutes off journey times.

Trains remain full, too. How the existing infrastructure is supposed to cope with all those extra commuters the government expects to leave their cars at home remains unexplained.

INFORMATION TECHNOLOGY BUSINESS DATABASES

Libraries at your fingertips

As the demand for information grows, proprietary networks face a challenge from web-based providers. **John Gapper** reports

For many managers and white-collar workers, the world did not change much when the first personal computer arrived on their desk. But some are now discovering a wealth of information waiting to be taken out of the box.

"Not only can people take charge of getting information for themselves, but they can enjoy it. It was impossible to discover some things before without going to a dusty library," says Dan Wagner, chief executive of Dialog, a UK company that collects and distributes electronic business data.

A salesman can now use his laptop to carry out a rapid search for news on a company he is about to visit. A corporate financier can read online equity research about a target company. A health service manager may not only brief herself on a drugs company but also examine the clinical research on its latest drugs.

Online business databases such as Dialog, Reed Elsevier's Nexis and Dow Jones Interactive, the electronic publishing arm of Dow Jones, are coming of age. For the first time, their potential market can be counted in the millions of workers, rather than in the thousands of librarians.

Yet these businesses also face fresh threats to their core activity of collecting data from thousands of sources and distributing it across proprietary networks. The internet – combined with the willingness of many publishers to give away material free online – is threatening their revenues and operating margins.

What is more, their visions of growth have yet to be fulfilled. Shares in Mr Wagner's company fell 46 per cent on a single day in November when it disclosed that its projections of revenue growth for the year following its £291m acquisition of Knight Ridder Information in 1997 would not be met.

Despite this, other online business data providers are optimistic. Dresdner Kleinwort Benson, the investment bank, estimates that turnover in the global market will expand from about $1.4bn in 1996 to $2.2bn in 2001. Most of this expansion will be driven by "end users": workers with new-found access to PCs.

This has encouraged smaller enterprises such as Reuters Business Briefing and FT Profile, which is owned by the Financial Times Group, to update their services. Instead of the traditional complex codes used by corporate librarians to search databases, managers can now scan most databases using internet browers.

Tim Andrews, editor of Dow Jones Interactive, says corporate librarians can provide more specialised services when relieved of the responsibility for making basic data searches. "Librarians are stretched very thin, and the number of people inside enterprises that want information has grown exponentially," he says.

The operators of online databases argue that they give ordinary managers access to a range of information that is now essential in their jobs. First, they provide details of what has been reported on any topic across a huge range of publications. Second, they allow managers to undertake occasional in-depth research simply.

'You can know anything that is being said about a company anywhere in the world'

In their sales pitches, providers tend to play on the embarrassment of being caught out through ignorance in the information age. "If you are looking at a company, you can know anything that is being said about them anywhere in the world. You don't want to miss an angle," says. Jon Webb, managing director of Nexis in Europe.

Indeed, most subscribers use databases for precisely such broad trawls across large swathes of material. About 65 per cent of requests for data on Dow Jones Interactive is for news clippings, with the remainder involving more in-depth research material such as market research documents and reports by equity analysts.

However, Mr Wagner of Dialog argues that simpler search methods, particularly browser "hotlinks" will encourage users to search more deeply. "Someone looking at an article on Viagra could click through to see the clinical research reports. We have a long way to go to enhance the use of high-value material," he says.

While databases such as Dialog already carry a lot of specialist information, news organisations are trying to improve their depth of data. Reuters Business Briefing is to amplify its extensive news database with specialist material on industries such as energy, pharmaceuticals and media.

Besides simplifying their search mechanisms, data providers are responding to shifting patterns of demand by altering the way they sell services. The biggest innovation has been a shift towards charging companies a flat monthly fee based on the number of desktop terminals, rather than charging per hour spent online.

Such pricing has helped Dow Jones Interactive increase its penetration. It had 35,000 users four years ago, but has increased this to 600,000 users by offering the service more cheaply the more terminals are connected. Its price per user in a large company with over 10,000 users can fall to under a tenth of that for the smallest companies.

In theory, all this provides a virtuous circle for online data companies. The costs of distributing data via the internet or corporate intranets is far lower than doing so over proprietary networks, and the potential audience is larger. Yet technology also makes it easier for outsiders to compete by offering data in different ways.

The biggest challenge is to aggregation itself: the need for businesses to rely on one company to collect and redistribute information. After all, many of the online news clippings that provide bread-and-butter revenues for the databases are being offered by the news organisations without charge on their own web sites.

"If a publisher has a small potential audience, and it puts two years of archives up on the web free, then its value within our database will be lower," admits Mr Andrews at Dow Jones Interactive. Another online data executive admits that the business is "in trouble in the long-term" unless publishers charge for web access.

It could take a long time for the internet to undermine online databases by itself. Internet search engines lack the precision of carefully catalogued and updated online databases, and searching for information free on the web remains too time-consuming and frustrating for many executives.

However, the dichotomy between the internet and proprietary databases is starting to be bridged. Northern Light, an internet search engine based in Boston, offers people seeking information about business topics not only an array of free references from the web, but also a listing of articles that can be bought individually from publishers.

David Seuss, chief executive of Northern Light, argues that traditional online data companies were able to charge high prices because they controlled access to data. "We're a new form of competitor, and we will radically lower the price of information. What are they going to do? Lower their prices by 75 per cent?" he asks.

Ultimately, the operators of the largest corporate intranets may take on this sort of function by striking their own deals with large publishers. Although Dialog has 4,000 suppliers of data Kleinwort Benson estimates that four publishers account for 30 per cent of its customer usage – which lays it open to being sidestepped.

Mr Webb of Nexis argues that few large companies will want to get involved in calculating and splitting revenues owed to each publisher, the tedious but vital work in which online companies specialise. But even in a world of broadening demand, those that put business data on the corporate desktop cannot relax.

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FINANCIAL TIMES MANAGEMENT BRIEFINGS

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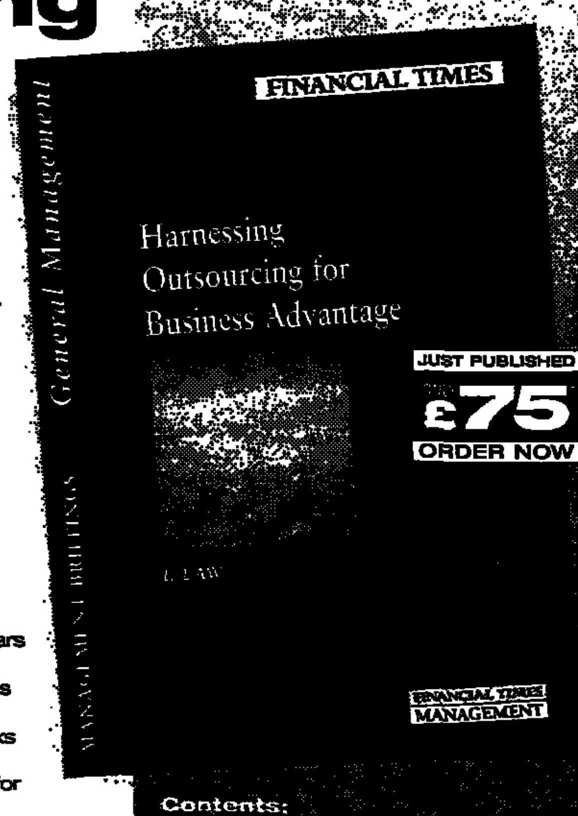

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A band strikes out from under its shell

As the Cleveland Orchestra embarks on its European tour, Stephen Pettitt looks at renovations back home at Severance Hall

By most realistic assessments the Cleveland rates as one of the top four or five American orchestras. Some would even place it at the very top of the tree. But it possesses one characteristic which marks it out from its peers. No orchestra plays with greater precision.

That precision is a necessity, and has been since 1958, when George Szell, who ruled the band with legendary severity from 1946 until his death in 1970, installed an acoustic shell in which every imperfection in ensemble or tone can stick out like a sore thumb. Curiously, it is not simply a matter of crystalline clarity. Recording engineers discern a muddiness, while I would label the acoustic dry, unrounded, rather characterless. Whatever, there is simply no room for error. The Cleveland has had to maintain its technical perfectionism in the subsequent regimes of Pierre Boulez (musical advisor from 1970 to 1972), Lorin Maazel (1972-82) and, for the past 14 years, Christoph von Dohnányi.

The orchestra is about to embark on a European tour that takes in the Canary Islands – welcome warmth after Ohio's big freeze – the Spanish mainland, and two venues in Paris. It will be bringing Beethoven's Violin Concerto with Frank Peter Zimmermann and Stravinsky's *The Rite of Spring*, both of which I heard in concert last Friday, as well as Bartók's *The Miraculous Mandarin*, Schubert's Ninth Symphony, Schnittke's *Sommernachtstraum* and also, in the Cité de la Musique, a couple of pieces by Charles Ives – David G. Porter's reconstruction of Charles Ives's hitherto unperformable *Emerson* Concerto, with Alan Feinberg as the piano soloist; and *Central Park in the Dark*.

When the orchestra returns to Cleveland it will not be to the Severance Hall, but to temporary accommodation – the newly restored, 2500-seat Allen Theater in downtown Cleveland, some six miles distant. For the Severance, built in 1931 by the architects Walker and Weeks to the then most technically advanced specification as a memorial from John Long Severance to his wife, Elisabeth DeWitt Severance, is in the midst of a $35m refurbishment.

That amount represents only a third of the sum that the orchestra plans to raise through its Twenty-First Century Campaign. The rest of the money is destined for the orchestra's endowment fund and for financing artistic and educational activities. Most of this enormous sum has been raised by its own patrons, though the State of Ohio has also contributed significantly.

The Cleveland Orchestra subscribes enthusiastically to the principal that orchestras should be owned and supported by patrons rather than the state. The danger is, of course, that people take for granted what they own. Certainly many well-heeled audience members seemed to be paying less than rapt attention to the music. Fidgeting and rustling of sweet papers and programmes seems endemic.

The building renovation is scheduled for completion by January 2000. Nothing will be done to alter Severance Hall's imposing neo-Georgian colonnaded façade; nor will there be much change, beyond refreshing the fabric, to its delightful Egyptian-flavoured foyer, the exuberant art deco interior of the main body of the hall, or the gorgeous little Reinberger Chamber Hall, complete with miniature pit, nestling under the main hall and garnished with pastoral frescoes in a manner that evokes 17th century France. But construction of a sizeable extension attached to the back of the hall, providing new amenities for players and public and a new entrance for those emerging from the underground car park is well under way.

The orchestra has decided to risk offending Szell's ghost by unceremoniously ripping out his precious shell and replacing it with something more acoustically generous

Most radically of all it has been decided to risk offending Szell's ghost by doing something about his precious shell. In short, the whole thing will be unceremoniously ripped out and replaced by a structure more in keeping with the original architecture and more acoustically generous to the musicians and audience. The *E.M. Skinner organ* – originally constructed over the stage and thus invisible – has been completely unusable since 1958 because Szell's shell was more or less hermetically sealed. This is to be rebuilt by the Schantz Organ Company in a more conventional position at the back of the stage. This will entail deepening the shell cavity, which will provide additional warmth and resonance. If at the same time the orchestra can retain the precision of its playing, it could become a very great orchestra indeed.

For the moment, however, the orchestra's necessary technical perfectionism means that sometimes it gives performances that lack a sense of daring and passion. Certainly the Cleveland does not play with the self-confident swagger of its rivals in St Louis or San Francisco. That is not, in any case, Dohnányi's way. He prefers a cleaner, purer approach, much like Boulez. In the concert I heard, Zimmermann's playing brought to the Beethoven a formidable and welcome array of tone colours. I like his down to earth, but never prosaic, manner in this work. *The Rite of Spring*, of course, was an exercise in carefully controlled virtuosity, but there is a lot to be said for such an approach. The energy becomes latent, the music less a dazzling orchestral showpiece than a detached, predetermined ritual in which it is possible to discern a future Stravinsky, the composer of *Oedipus Rex*, *Threni* and the rest.

Tour dates: Las Palmas, January 21, 22; Tenerife, 23 and 24; Madrid, 26; Barcelona, 27; Valencia, 28; Paris, Salle Pleyel, 30 and Cité de la Musique, 31.

Partners in a hell-hole

LONDON THEATRE

SARAH HEMMING

The Glory of Living
Royal Court Upstairs, WC2

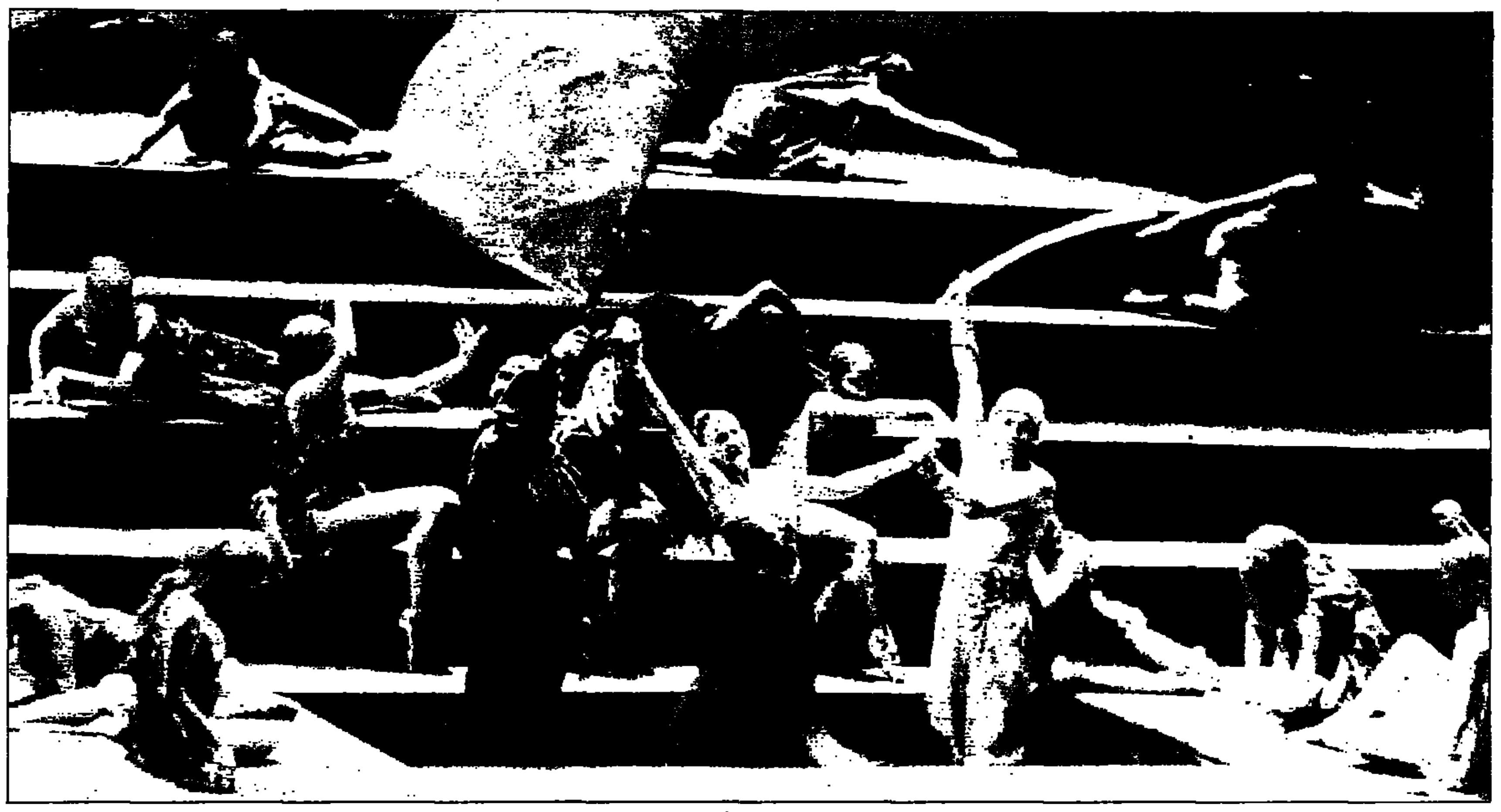
Life is anything but glorious for the characters in *Rebecca Gilman's The Glory of Living*. This young American playwright's powerful and distressing play plunges us into the world of a psychopath and his female sidekick who operate in trailer park territory, a place strewn with poverty and shoddiness. Yet what is distressing about the play is not so much the sexual depravity and violence it involves, neither of which we see, but the way it depicts the appallingly casual nature of life and death that allows such acts to flourish.

We meet Lisa, a sullen 15-year-old, whose father is dead and whose mother entertains total strangers behind the sheet that divides their trailer in two. When Jim and Clint arrive to take advantage of this hospitality, Clint invites Lisa to go away with him. Amazed that anyone should show any interest in her, she agrees. Two years later, she is married to him, the mother of twins she barely sees, covered with bruises and trapped in a nightmare routine, whereby she cruises round in the car procuring vulnerable young girls for Clint to rape and then disposing of them for him.

Gilman dissects with disturbing believability the relationships that makes such partnerships work. He masterminds, she obeys; she is too dazed by her experience of life and too scared of him not to. When she finally confesses, we fully believe her as she tells her attorney that it never occurred to her not to do what Clint said. Her attorney's warnings that she will go to the electric chair she meets with resignation – the chair, like everything else in her life, seems inevitable. Gilman shows a human being who is not evil so much as empty, who believes she is worthless and for whom the moral outrage she encounters when she is caught has no meaning at all.

Gilman's writing is enormously compelling and her characters alarmingly plausible. And the acting in Katherine Hunter's hand grenade of a production is superb. Monica Dolan is excellent as Lisa, Tony Curran is frighteningly good as Clint. There are strong performances too from Thomas Fisher as a victim's boyfriend and Lorcan Cranitch as Lisa's well-meaning attorney.

The play depicts a society in total breakdown, in which no amount of tough justice is going to prevent a character like Lisa from heading for the electric chair. So what is the answer? In the last scene, the attorney teaches Lisa how to play a tune on the toy piano she has held on to since childhood: if only, it *suggests*, *someone had* taken such care with Lisa earlier, things might have turned out differently.



By way of divertissement; and for authenticity, the long, irrelevant and musically trivial ballet was included in the new production

The work that drove Donizetti insane

Andrew Porter reviews a new edition of the composer's last and most ambitious opera, 'Dom Sébastien', in Bologna

Donizetti's last and most *ambitious opera, the five-act Dom Sébastien*, unheard in England, has had a chequered history. Composed for the Paris Opéra in 1843, it was mounted there with great splendour: 600 people and many horses took the stage for the fourth-act finale. But the opera *failed* after 32 performances. Donizetti revised it in German for Vienna, where it was more successful and remained in the repertory for decades. As *Don Sebastiano*, in Italian, it reached La Scala in 1847, also with success, but in an edition prepared by other hands; the composer had by then succumbed to general paralysis of the insane. That corrupt Italian score has been the basis for most of the infrequent modern revivals.

But now there is a new edition, prepared by Mary Ann Smart. Launched as the climax of bicentenary commemoration in the composer's native Bergamo, it was then in December given eight performances in Bologna's Teatro Comunale, that historic, progressive opera house, designed by Galli-Bibbiena, that opened in 1763 with a Gluck premiere, staged the first Italian performance of Verdi's *Don Carlos*, and introduced Wagner to Italy.

This was an important occasion, if not quite the triumphant instatement of what William Ashbrook, Donizetti's biographer, called the most considerable achievement of Donizetti's busy career. For one thing, there was a disparity between a very full French score, devised for lavishly spectacular representation, and Pier Luigi Pizzi's sombre designs and near-routine staging. On a single, stepped set, a Manueline frame held different accoutrements and backdrops for the Lisbon port whence Sebastian's armada embarks; the Moroccan plain where his army is defeated; the huge funeral procession; etc.

Pizzi's costumes were predominantly black, under lighting so tenebrous that only at curtain-call could one see what the principals looked like. It was an earnestly severe presentation, conducted with a broad sweep by *Daniele* Gatti, but the 1843 jibe – a funeral rite in five acts – came to mind. To the Italian audiences the opera was sung in French: a daft decision when there was not a Francophone in the cast. By way of divertissement, and for authenticity, the long, irrelevant and musically trivial ballet with Carla Fracci its veteran ballerina was included.

There were alternating casts. In mine, the tenor Giuseppe Filianoti as Sebastian, the mezzo Enkeldjda Shkosa as Zaida, the baritones Carmelo Corrado Caruso as Camoëns (poet spatchcocked by Scribe into the plot to provide a bit of history) and Massimiliano Gagliardo as Abayaldos (Zaida's Moorish fiancé), and the bass Danilo Rigosa as the Grand Inquisitor were moderately accomplished but unremarkable performers.

Scribe's plot deals with Sebastian's ill-fated expedition against the Moors and his presumed death on an African battlefield; with Zaida, the Moorish princess who loves him and saves his life; and with his uncle's attempt, Inquisition-aided, to seize the throne. The libretto, first intended for Mendelssohn, was considered by Meyerbeer, who found it heavy. It was assigned to Donizetti when Meyerbeer's long-promised *Prophète* was once again delayed and the Opéra director, Léon Pillet, needed a new work in a hurry. Meyerbeer took seven years over his *Prophète*. Donizetti was allowed barely six months in which to compose *Dom Sébastien*.

But haste was no handicap in those feverish, miraculously fecund last four years of Donizetti's active life, during which he produced a stream of inspired *operas in every vein*. They included *Les Martyrs*, *La Fille du régiment*, *Adelia*, *Rita*, *Elisabeth* and *Elisabetta*, *Maria Padilla*, *Linda di Chamounix*, *Caterina Cornaro*, *Don Pasquale*, *Maria di Rohan* (in two versions), and much, much else besides. He also found time to prepare and conduct the Bologna and Vienna premieres of Rossini's *Stabat mater* and prepare for Verdi the Vienna premiere of *Nabucco*. If the *grands opéras* – *Le Duc d'Albe* (unfinished), *La Favorite*, and *Dom Sébastien* – are less even achievements, not haste but Scribe, Meyerbeer's precedent, and the ways of the Opéra itself are largely to blame.

What the composer had to endure during the *Dom Sébastien* rehearsals, some said, precipitated his madness. In obeisance to scenic effects, numbers were shifted from act to act, reducing a carefully planned sequence to mere chatter. The principal baritone air, "O Lisbonne", with its tricky horn parts, was recomposed between the dress rehearsal and the premiere. And as *prima donna assoluta* – no other female role allowed – *the mezzo-soprano* Rosine Stolz, Pillet's mistress, enforced her demands. A soprano solo disappeared.

Some years ago I explored the copious, scattered *Dom Sébastien* materials in Paris, scores and librettos, and discovered a wondrous jumble of discarded and alternative numbers, in three languages (French, German and Italian), most of it by Donizetti, some by later revisers. Bologna opted for what reached the stage in 1843, with one important Vienna addition. The big slow ensembles were very grand, but the fast movements tended to drop into chipper, hoppity-skip vulgarity.

And in sum the result, in Bologna, was confirmation of accepted opinion rather than revelation: some poignant situations, some great moments, within a loose-limbed, clumsy, and finally *monotonous drama*. *Effects* without causes. A brief, musically scamped *coup de théâtre* to end with – the tenor, with the soprano in his arms, clambers down a rope ladder from a high tower: a shot severs the rope and they tumble to their deaths – instead of a tragic finale. Donizetti called it a rat-tail of an end.

But there was also much that was stirring, imaginative, newly inventive and subtly scored. Donizetti, great composer, was in *Dom Sébastien* making his way toward a mastery of *grand opéra* at its highest, composing grandly. Scribe and Pillet and Stolz cut the genius's balls and, ailing though resentful, he allowed it. As an artist he peaked and died at 45, after a flood of late achievement scarce-parallelled in artistic history. Had penicillin been discovered he'd surely be up there in the pantheon *with Wagner and Verdi*. I've no quarrel with those who, on the strength of *Poliuto* and *Don Pasquale*, already place him there.

INTERNATIONAL

Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Die Zauberflöte: by Mozart. Conducted by Jiri Kout in a staging by Günter Krämer, with designs by Andreas Reinhardt; Jan 24
● *Turandot*: by Puccini. Marcello Viotti conducts a staging by Götz Friedrich: Jan 20, 23

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Mefistofele: by Boito. György Györiványi Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 22, 25

COLOGNE

OPERA
Oper der Stadt
Tel: 49-221-221 8240
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 23

DUBLIN

CONCERT
National Concert Hall
Tel: 353-1-475 1572
San Francisco Symphony Orchestra: first concert in a 14-city European tour. Michael Tilson Thomas conducts works by Ives, Mendelssohn and Prokofiev, with violin soloist Gil Shaham; Jan 20

FLORENCE

EXHIBITION
Palazzo Pitti
La Dama con l'Ermellino: Leonardo da Vinci's 1489 portrait of the young mistress of Duke Ludovico of Milan travels to Italy for the first time since 1800, when it was purchased by the Polish Prince Czartoryski; to Jan 24

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Treasures from King Zhao Mo: King Zhao Mo's tomb, sealed in 122 BC, was accidentally discovered in 1983 by construction workers. This exhibition displays the many treasures buried with Zhao Mo, the first time they have been seen in the west; to Jan 22

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Mendelssohn and Prokofiev. Featuring violin soloist Gil Shaham; Jan 21

Queen Elizabeth Hall
Tel: 44-171-960 4242
Orchestra of the Age of the Enlightenment: conducted by Robert Levin in works by Mozart; Jan 21

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
Van Gogh's Van Goghs: Masterpieces from the Van Gogh Museum, Amsterdam. Display of 70 paintings on loan during the period of the Dutch Museum's renovation, transferring to LA from Washington. Ranging across the artist's career, the show includes masterpieces such as Potato Eaters (1885) and Wheatfield with Crows (1890); to May 16

LYON

OPERA
Opéra National de Lyon
Tel: 33-4-7200 4500
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Jan 24

MADRID

CONCERTS
Auditorio Nacional
Tel: 34-1-337 0100
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Mahler; Jan 23
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Canteloube and Prokofiev, with violin soloist Gil Shaham; Jan 24

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
BBC Philharmonic: conducted by Yan Pascal Tortelier in works by Poulenc, with the BBC Singers and Leeds Festival Chorus; Jan 23

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Kent Nagano in works by Liszt, Prokofiev and Stravinsky. With violin soloist Kyung-Wha Chung; Jan 21, 22, 24
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Jan 20, 23

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Jan 23

MURCIA

CONCERT
Auditorio y Centro de Congressos
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Bernstein and Prokofiev; Jan 25

NEW YORK

CONCERTS
Avery Fisher Hall
Tel: 1-212-875 5030
www.lincolncenter.org
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar and Beethoven, with cello soloist Steven Isserlis; Jan 24
● London Symphony Orchestra: conducted by Colin Davis in works by Beethoven and Elgar; Jan 25
● *New York Philharmonic*: conducted by Riccardo Muti in works by Brahms, Busoni and Ravel; Jan 20, 21, 22

OPERA
Metropolitan Opera
Tel: 1-212-362 6000
www.metopera.org
Werther: by Massenet. Donald Runnicles conducts a staging by Paul-Emile Deiber. Cast includes Susan Graham; and Thomas Hampson; Jan 23

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Neeme Järvi in works by Tchaikovsky and Franck, with violin soloist Régis Pasquier; Jan 20, 21

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Victor Hugo, Photographs of Exile: selection of photographs *produced in Jersey in the 1850s*, by Hugo in collaboration with his sons; to Jan 24

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 23

UTAH

FESTIVAL
Sundance Film Festival
Tel: 1-801-521 2525
Sundance Film Festival: the influential showcase for independent cinema makes its annual appearance with an array of films from around the world. *Screenings take place in Park* City, Salt Lake City, Ogden and Sundance itself; from Jan 21 to Jan 31

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Tokyo City Philharmonic: conducted by Taijiro Iimori in works by Grieg and J. Strauss, with piano soloist Emiko Imagawa; Jan 20

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Pegging out

The collapse of Brazil's Real plan is the last nail in the coffin of pegged exchange rates

"Cecily, you will read your Political Economy in my absence. The chapter on the Fall of the Rupee you may omit. It is somewhat too sensational." Oscar Wilde. *The Importance of Being Earnest.*

If Cecily had been alive today, Miss Prism would presumably have outlawed any book with chapters on the baht, won, rupiah, rouble and Real. Their tale has been more than somewhat sensational. It has been an epic of greed, fear and folly.

Up to this point, the story seems to have one clear lesson: adjustable peg exchange rate regimes must be consigned to the rubbish bin. In this story, Brazil's abandonment of its peg is an historic event. The exchange rate was the central element in Fernando Henrique Cardoso's Real plan, which eliminated high inflation. During negotiations with the International Monetary Fund last November, the Brazilian government insisted on maintenance of that regime. Now it has gone. Brazil joins Russia as a country whose exchange rate the IMF tried, unsuccessfully, to save. It is on a list of countries whose pegs have failed. These regimes could not be preserved, at least in the absence of tough and effective exchange controls.

The world must now confront two closely linked questions: what sort of exchange rate regimes should be promoted? And what role should the IMF be expected to play? The answer to the first question is "floating rates": the answer to the second is "very limited".

As I noted in a previous column (*Currency vacuum*, November 4), the finance ministers and central bank governors of the group of seven leading economies were then remarkably coy on exchange-rate regimes. One reason for this was that *they did not wish to* undermine regimes they were supporting. The collapse of the Real plan has removed that constraint.

Adjustable peg exchange rates are extremely vulnerable to destabilising expectations. Economic *agents, at home and abroad,* have to guess not just whether the authorities mean what they say, but whether other private participants believe their professions.

When confidence is high, as it was in east Asia until *the summer of 1997*, people are willing to assume – and make available – vast quantities of foreign currency finance. When confidence disappears, this finance will be withdrawn. The great advantage of floating exchange rates is that they make *the risks* more evident. They also economise on government credibility. Private participants know they are playing against one another, from the beginning. Without the government's exchange-rate insurance, *they are far less likely to* take on the unhedged foreign currency exposures that have done such vast damage to the private sectors of east Asian countries.

True, floating rates impose the cost of volatility. But *that is much smaller than* that of the spectacular foreign exchange *cum* debt crises of recent years. In South Korea, for example, economic growth of 5.5 per cent in 1997 turned into a contraction of 7 per cent last year; and a current account *deficit of 1.8 per cent of gross* domestic product in 1997 turned, almost incredibly, into a surplus of 13.3 per cent in 1998. In the context of the US, this would be equivalent to a shift from a deficit of $150bn (close to the country's actual figure for 1997) *to a surplus of* $1,100bn.

The conclusion seems to be clear: floating exchange rates are the only workable option. That, in turn, implies a very reduced role for the IMF. Strictly speaking, no *international lender of last* resort is then required, particularly if the foreign currency exposure of the banking system is properly regulated.

In practice, however, the IMF may be able to play a modest supplementary role. Stanley Fischer, first deputy managing director of the IMF, notes that even countries with flexible rates, such as *Mexico, South Africa* and Turkey, have been damaged by the financial crisis.* The provision of *resources by the IMF may* help such countries to limit currency fluctuations, while reducing their need to invest in foreign exchange reserves. This should then help reduce the attractions of controls on capital flows.

The experience of Russia *and Brazil demonstrates*, however, that the IMF cannot, with the resources at its command, make it possible for such vulnerable countries to hold their exchange rates. The chief reason for these failures may well have been the *governments' inability to* implement conditions attached to the loans – as the IMF argues. But the IMF was only called in because the countries were deemed vulnerable. It can hardly be surprising that they did not implement all conditions, *since this very likelihood* was why they were so vulnerable, in the first place.

The conclusion seems straightforward: with the collapse of so many pegged exchange rates, the damage done by these failures and the IMF's inability to *prevent them, the regimes* must simply be abandoned. The only plausible general alternative, at present, is floating rates.

While inescapable, this is not a comfortable conclusion. Not only are floating rates volatile, but that volatility imposes particularly high costs on small open economies. Furthermore, the use of the exchange rate as a counter-inflationary anchor makes sense for countries with long histories of fiscal and monetary mismanagement.

For such reasons, a favoured *alternative has* become the currency board, which creates a one-to-one link between domestic cash *and a foreign currency*. The beauty of this system is that it imposes rigorous discipline on domestic policy. Unfortunately, as the experience of Hong Kong and Argentina has shown, even currency boards are problematic at a time of crisis. One reason for this is that a fixed exchange rate becomes very burdensome when one's neighbours and competitors are devaluing. A small economy may be thrown into a prolonged recession, with declining *nominal* wages the only escape. These costs are further increased if the maintenance of the peg comes in question. Inevitably, therefore, few countries will be prepared to endure the rigours of the currency board.

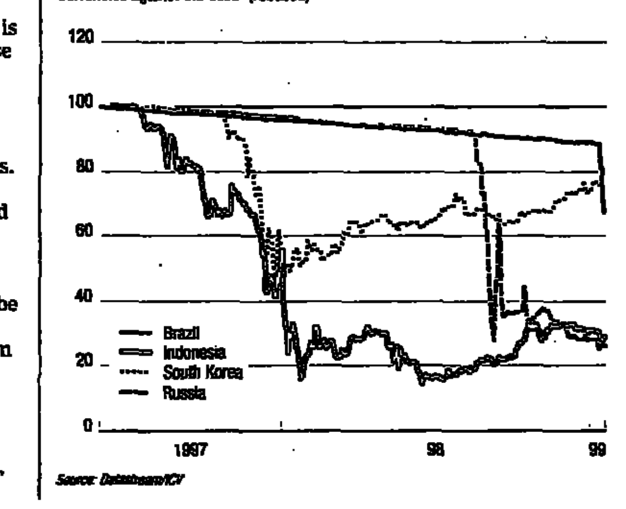
In the long run, however, a world of free capital flows, growing openness to trade and exchange rate volatility may become intolerable. If so, radical alternatives may become more attractive.

One option would be greatly to increase resources *available to the IMF*, allowing it to support fixed exchange rates far more convincingly. If the Fund were the same size in relation to world trade as it was in 1945, its resources would have to be over $2,500bn, almost nine times *what they actually are.* But to make such an expanded system work, eligibility would have to be tightly controlled. Otherwise, the IMF would merely encourage worse policy and sillier private behaviour.

Still more radically, the *world could return to the* gold standard or establish a global currency. These might work better than what it has today.

Yet such radicalism is not for today's world – or tomorrow's. For now, floating currencies are the only workable option.

How the pegs have fallen
Currencies against the dollar (rebased)



Source: Datastream/ICV

**Stanley Fischer, On the Need for an International Lender of Last Resort, January 3 1999, http://www.imf.org/external/np/speeches/1999/010399.HTM.*

Martin.Wolf@ft.com

PERSONAL VIEW PAUL KRUGMAN

Japan heads for the edge

The world's second-biggest economy is facing a needless slump because of the passivity of its monetary authorities

I have long been pessimistic about Japan's near-term prospects, believing that its economy requires a more aggressive and less conven*tional stim*ulus plan than the government has so far been willing to contemplate.

Until now, however, the situation seemed depressing but not alarming, with the main risk being stagnation rather than collapse. Surely, I imagined, so wealthy and sophisticated a nation will always be able and willing to do whatever is necessary to avoid disaster.

But in the past month or so the near-passivity of Japanese authorities in the face of slumping bond prices and a sky-high yen has made me wonder. It is starting to look entirely possible that the managers of the world's *second-largest* economy will simply stand by, paralyzed by an odd mixture of pride and intellectual confusion, as their nation goes into a deflationary tailspin.

Exactly why the yen has risen by 25 per cent since early October, and the yield *on Japanese* government bonds risen so sharply, can be disputed. Surely neither reflects a sudden surge of optimism about the future of the Japanese economy. The most likely explanation is that special events – the collapse of Russia, the *announcement that some* public agencies will not buy as many bonds as expected – started a sort of cascade of margin calls, in which highly indebted holders of both yen and dollar bonds were forced to sell their assets, driving prices down and thereby leading to further margin calls. If true, this story suggests that markets are a lot less liquid and efficient than economists like to believe.

But whatever the reasons for these market moves, their effect is clear: they impose new deflationary pressures on an economy *that* was already looking dangerously weak. And that means that the case for a radically expansionary monetary policy, always strong, has now become overwhelming.

Eight or nine months ago, when I and others were arguing that Japan should engage in aggressive monetary expansion and even deliberately target a positive rate *of inflation*, the main objections were that such a policy would be ineffective (although in that case what harm in trying?) and that it would risk an excessive depreciation of the yen. Better, went the conventional view, to rely on fiscal expansion plus bank reform to get the economy moving.

Don't ask where the money would come from: it could and should simply be created

But look at the situation now. If nothing else, the rise in bond yields, the awesome size of prospective *deficits*, and the realisation by rating agencies that Japan's debt already exceeds its gross domestic product mean that fiscal expansion has reached a limit. If the current push is not enough – and it is not – there will not be another.

The claim that bank recapitalisation will unleash massive new lending has always been *a questionable* proposition, and looks no more convincing now. Anyway, the contractionary effect of the strong yen and higher interest rates will probably swamp the effects of the government's stimulus plan: and falling bond and dollar prices will wipe out bank capital even as the government tries to put more in. Surely at *this point the risks* of printing more money are far outweighed by the risks of not doing so.

What is truly puzzling is why Japan's financial authorities have not regarded these market events as a call to action. Why did the Bank of Japan wait until the yen had risen to Y110 to the dollar before intervening, and then do so only on a small scale – rather than buying dollars aggressively months ago? Why hasn't it bought enough Japanese government bonds to keep yields from soaring?

Don't ask where the money would come from: it could and should simply be created. There would be no reason at all to "sterilise" these operations by selling other assets. *On the contrary*, the situation offers a perfect opportunity to effect a salutary expansion of the monetary base.

One can only guess why none of this is happening. Is Japan's Ministry of Finance so committed to promoting the yen's role as an international currency that it does not care if that currency is backed by an imploding real *economy? Does it still fear,* after eight years of slump, that expanding the monetary base will reinflate the asset market bubble? Has it developed some novel economic theory under which a strong yen and high interest rates are expansionary?

Whatever the reasons for inaction, the story is starting to look like a tragedy. A great economy, which does *not deserve or need to be in* a slump at all, is heading for the edge of the cliff – and its drivers refuse to turn the wheel.

The author is professor of economics at the Massachusetts Institute of Technology

Calling Milosevic's bluff

The prospect of more massacres in Kosovo makes it impossible for the west to settle for a waiting game in Yugoslavia, says **David Buchan**

The surprise is not that the international community and President Slobodan Milosevic of Yugoslavia are confronting each other again, but rather the sudden speed with which they have arrived back at the brink.

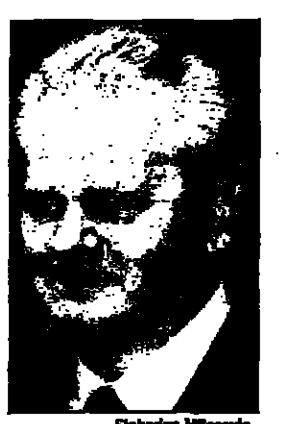
There have been myriad voices prophesying renewed war in Kosovo, if Yugoslavia's Serb leadership and the armed Albanian separatists did not use this winter to reach a political settlement. But a quick series of events has now jeopardised international mediation and the chance of such a settlement.

First, there was the gruesome discovery on Saturday of the bodies of 45 ethnic Albanian civilians at Racak. This brought swift condemnation from a special Nato meeting the following day.

But this was met on Monday with a double slap in the face from the Serb authorities, who first blocked the entry into Kosovo of Louise Arbour, *chief prosecutor of* the international war crimes tribunal, and then announced the expulsion of William Walker, head of the international monitoring mission in Kosovo.

The brinkmanship continued yesterday as Nato sent its two top generals – Wesley Clark, the alliance supreme commander, and Klaus Naumann, head of the Nato military committee – to deliver an ostensibly blunt message to Mr Milosevic: back down, rescind the expulsion order on Mr Walker, allow international investigation of the Racak massacre, or face Nato's bombs, threatened last October but held in abeyance.

So suddenly has this latest confrontation escalated that there is an air of unreality to it. The Nato generals know that they are a couple of weeks away from being able to carry out any strike order from their political masters. They have at present less than 80 aircraft at their disposal in Italy, or less than a third of the planes they would need to carry out strikes in Yugoslavia. In addition, Nato's very success last time in getting Mr Milosevic to allow international monitors into Kosovo means that any bombing campaign



Slobodan Milosevic, president of Yugoslavia

would have to be preceded by an evacuation of these same monitors.

Mr Milosevic may be bluffing, too. Despite his absolute rule, the federal president of Yugoslavia takes few public decisions in his own name, and is quite capable of rescinding the Walker expulsion in order to create the spurious impression of a concession.

But this time he is taking a big risk. Mr Walker is not like the chief United Nations inspector in Iraq, Richard Butler, the *controversial* head of a contested operation. Mr Walker's mission has the widest possible support, coming under the 54-nation Organisation for Security and Co-operation in Europe (OSCE). Indeed, the OSCE was specifically brought in to placate both Mr Milosevic and Russia.

Mr Walker, a senior US diplomat, was quick to blame the Racak massacre on Serb forces, as did other monitors. And this time, the traditional pro-Serb sympa*thies of Moscow did not pre*vent it joining the chorus of western denunciation of the Walker expulsion order.

Even a last-minute about-turn by Mr Milosevic will not remove the impression that he is of rapidly diminishing utility to the west.

In the US, policymakers have been debating for some months whether the Serb leader can still be regarded as part of the solution in Kosovo – as he undoubtedly was in the 1995 Dayton settlement of the Bosnian war – or whether he is now a *major part of the problem.*

In the US, policymakers have been debating whether the Serb leader can still be regarded as part of the solution in Kosovo or whether he is now a major part of the problem

The west has been willing to connive at a certain level of Serb resistance to the separatists of the Kosovo Liber*ation Army (KLA)* because Kosovo is still an internationally recognised part of Serbia and Yugoslavia, and because an independent KLA state might act as a destabilising magnet for Albanian communities in neighbouring Macedonia, Montenegro and Albania proper.

Indeed, mediators like Richard Holbrooke, who brokered the October 1998 agreements setting up the OSCE monitoring mission, have sought to show Mr Mil*osevic that it is in his intelli*gent self-interest to get the west involved in Kosovo so that it could exercise a restraining hand on the KLA. If proof were needed, Mr Milosevic got it last week when the OSCE monitors persuaded the KLA to free eight captured Yugoslav soldiers.

In fact, western mediators have found it extraordinarily *difficult to weld the quarrel*some Kosovar Albanian leaders into anything resembling a single negotiating team.

If Mr Milosevic had offered real autonomy to his Kosovar Albanians, he could have put the west under real pressure to deliver on its prom*ises to bring the KLA to* heel. But in the light of the Racak massacre and Mr Milosevic's subsequent moves, that point is moot.

The west's dilemma over Mr Milosevic is made no easier by the continued apparent strength of his power base in Belgrade. Tight censorship of the Serb press, and last autumn's changes in the top army and security brass, may indicate growing fears of internal dissent, but they do intimidate opponents.

The west imposes sanc*tions on credit and travel to* Yugoslavia, but has no appetite – because of the collateral damage to surrounding economies – for a trade embargo. The working assumption is that Mr Milosevic will stay in power, at least until his presidential term ends in 2001. Even if he were ousted early, few opposition Serb leaders would take a much softer line towards the Kosovar Albanians.

At all events, Racak and the prospect of more massacres make it hard for the *west to settle for a waiting* game.

At present, Nato's rhetoric is quite strong. The fact that Mr Walker is American has reinforced the US reaction to his expulsion order.

President Bill Clinton, in search of distractions these days, is to host Nato's 50th anniversary summit in Washington in three months time, and will want to ensure *it is not in abject* disarray over Kosovo. President Jacques Chirac has suggested that France might *now take a* tougher line on Kosovo, as Britain long has.

But it is still an open question whether Nato will, as it apparently nearly did last October, push the red button.

LETTERS TO THE EDITOR

Treatments that mask the symptoms

From D. Jerome Murphy.

Sir, Keizo Obuchi, the Japanese prime minister, is quite correct that wild fluctuations in leading currencies are detrimental to the *Japanese economy and, by* extension, the world. However, his proposal to create a "monitoring system" consisting of flexible trading bands is reminiscent of other efforts in Japan to mask the symptoms rather than treat the cause of the trouble in *its dysfunctional* economy.

There is little doubt that Japan's export industries, which had previously benefited from the yen's volatility, are set to suffer now that it is swinging in the opposite direction. Yet, while many analysts are puzzled by the yen's recent strength, most know that it is tied to investment flows rather than economic fundamentals.

In this sense, temporary yen strength could be a paradoxical sign of economic *weakness. For Japanese* investors and companies, the narrowing spread between benchmark Japanese government bonds and US Treasuries provides a good opportunity to repatriate sorely needed capital while reducing overall foreign exchange *risk. The yen's strength,* however, could prove to be highly perishable once these flows dry up and exchange movements become more closely aligned with current economic conditions.

In preparation for the road ahead, Mr Obuchi would do well to pursue sound policies to address overcapacity, weak profitability and the massive overhang of bad debt that has frozen liquidity in lending and property markets. While excessive volatil*ity clearly can have harmful* effects, long-term trends in foreign exchange movements tell a story about market confidence in a given country's economy and supporting institutions. Mandating exchange rate stability by decree would have the unfortunate effect of "blunting the message", making the efficient allocation of capital in Japan even more of a daunting challenge.

D. Jerome Murphy,
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Shibuya-Ku Tokyo 150,
Japan

FT takes on the task of teaching how not to offend

From Mr John Wakely.

Sir, As a non-smoker and lacking a police record, I was somewhat shocked to realise I had been leading an immoral life during these last 10 years, when I have been a small investor in Philip Morris ("Big Tobacco on the loose", January 13).

Is this a new direction that the FT is taking to be in tune with New Labour – ie, to instruct us on socially correct behaviour? Perhaps it might be an idea to replace your wonderful weekend column "How To Spend It" (which promotes ludicrously *expensive items that few* can afford), with "How To Live A Moral Life". Though I do not hunt or shoot, there must be many other ways in which I offend. Certainly I could start by sharing the FT in the office rather than buying my own copy, which would *save many a tree! I look for*ward to further instructions.

John Wakely,
managing director,
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UK waves the euroland flag

From Lissa Bradley.

Sir, Would you care to, pass on to the International Monetary Fund economists ("IMF prepares for first post-euro analysis", January 15) the news that I *have just* paid FFr50 for the privilege of buying DM150 (in cash) at Société Générale? It seems the only place I can spend *my euros* is at Virgin Records and Marks and Spencer – two British companies. Vive l'euroland!

Lissa Bradley,
119 rue de Turenne,
75003 Paris, France

Euro spells end to dominance of index tracker

From Mr Luk Delboo.

Sir, An amazing paradox has got hold of euroland stock markets: the most liquid stocks have become the most volatile. Swings of 5 per cent or more are not unusual any more. Large masses of capital are flowing in or out of the markets, all concentrated on the 300 or so most liquid stocks. This causes these stocks to become *de facto* illiquid, because they cannot bear the weight of the *capital* flows.

This is not a healthy situation: capital markets' primary goal is – believe it or not – to provide finance for company growth. The increased volatility prevents it from performing this task correctly. The public declaration of a Fortis NL manager that its capital increase escaped the Brazil crisis by *two hours, and that* it would not have succeeded other*wise*, proves this point.

Are we to construct Soros-like barriers to end this phenomenon? No, I think the market *will straighten itself* out and spread the liquidity over a larger number of stocks. This could mean the end of the dominance *of* index-tracking.

Luk Delboo,
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9050 Gentbrugge,
Belgium

Official data as viewed by the sceptics

From Douglas McWilliams.

Sir, Eddie George, the governor of the Bank of England, has found the recent weakness in consumer spending "not easy to explain", and Robert Chote, your economics editor, has described it as "hard to fathom" ("Consumer conundrum", Economics Notebook, January 18.

Yet the most recent Office for National Statistics figures for household expendi*ture, published on December* 21 1998, show real household disposable incomes as flat for the first three quarters of 1998 compared with a year earlier, and household consumers' expenditure in this period sustained only by a 2 percentage point fall in the *household savings ratio.*

If the official figures are right, the apparent weakness in households' expenditure in the fourth quarter was all too predictable, since without growth in disposable incomes, savings ratios were unlikely to continue to fall *to sustain spending* and might well have been expected to bounce back.

It may have been difficult to foresee the precise month in which spending would slow, but unless one assumed that the ONS figures were wildly inaccurate *it was relatively* easy to forecast that this would happen at some stage.

I would be interested to know whether *the* two distinguished commentators are surprised because they are sceptical about the official figures for savings and incomes. If so, this is yet another indication that the UK's official statistics may not be providing an adequate information base for making important economic decisions.

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Wednesday January 20 1999

Crossed lines

Arguments about technical standards are rarely the stuff of international diplomacy. So the recent flurry of exchanges on the subject between senior US officials, led by the secretary of state, and the European Union's industry commissioner is a sure sign that something bigger is at stake.

The source of discord is US unhappiness about Europe's efforts to win international acceptance of its planned common standard for a new generation of mobile telephones. Washington suspects a European plot to use the standard to discriminate against US suppliers – a charge which Brussels firmly rejects.

The US stance appears influenced partly by lobbying by Qualcomm, a US leader in cellphone technology, which fears Europe's proposed standard would jeopardise its own business interests. But the dispute also reflects divergent philosophies. The US prefers standards to be set by the market. But in Europe, the trend – particularly in telecommunications – is increasingly to set common standards through institutionalised industry co-operation.

Each approach has its virtues. But in mobile telephony, Europe's model has already proved itself, by encouraging adoption of the GSM system throughout the region and in much of Asia. In the US, by contrast, four incompatible types of mobile network co-exist.

Standardisation not only benefits users, by enabling them to use the same telephone in many different places. Europe's experience shows that by enlarging the available market it improves scale economies, cuts costs, encourages competition and stimulates demand.

GSM's success gives European industry a head start in setting the next international standard for mobile phones. If US manufacturers are at a disadvantage, it is largely self-inflicted. As well as failing to unite behind one standard, most have spurned offers to join the European effort.

Such rugged individualism is an inefficient use of resources and inconsistent with the development of a global market for equipment and services. This week's planned merger between Britain's Vodafone and AirTouch of the US is a sign of the pressures in that direction. Standard-setting must keep pace.

The US industry needs to recognise that sensible co-operation can expand markets and enhance competition. It also needs to take a more international approach. Europe should reciprocate by encouraging the widest possible industry participation in its decisions, as a stepping stone towards truly global standards.

ECB bulletin

For an exercise in transparency, the statement on the European Central Bank's thinking on interest rates, included in its new monthly bulletin, remains opaque. The ECB reiterates that it will keep the euro-zone benchmark interest rate unchanged at 3 per cent for the "foreseeable future". Despite a bulky bulletin, this judgment is unconvincing.

In the absence of published minutes, the ECB's editorial must serve as the next best thing. Wim Duisenberg, ECB president, writes that it summarises the "aspects on which monetary policy decisions are based". So what does it say?

First, it makes clear that the ECB actually decided in early December that the level of interest rates required to keep inflation below 2 per cent – the chosen definition of price stability – was 3 per cent. It has not changed its thinking, even though Eurostat estimates suggest that growth in the third quarter of 1998 slowed to an annual rate of 2.4 per cent compared to 3 per cent in the first half, while annual inflation fell from 1.4 per cent in the summer to 0.9 per cent in November.

Second, the ECB acknowledges that troubles in the international economy have dashed industrial confidence and activity within the euro-zone, with declining order books and capacity utilisation. Against the deflationary effect from the international economy, the ECB notes that consumer demand remains resilient, and weighs the risks of future inflationary wage growth and relaxation of fiscal policies in the euro-zone. Overall, it judges that inflationary and deflationary risks are balanced.

The ECB is pleased that monetary growth has stayed close to its reference range. However, given the uncertainty surrounding the data and money demand in the euro-zone, the assessment of developments in the real economy is crucial. Here lies the central problem with the ECB's approach to transparency. A monthly bulletin is a welcome attempt to explain its policy to the European public, and it provides lots of useful information. However, monetary policy is a forward-looking game and the ECB keeps its forecasts secret.

Private sector forecasts suggest the euro-zone is slowing significantly, especially Germany which accounts for more than a third of euro-zone output. There are important structural problems in the euro-zone. But the absence of inflationary pressure suggests a lack of demand too. The notion that interest rates should remain unchanged as far as the eye can see, and are as likely to go up as down, is wrong. They should come down. The ECB cannot afford to be complacent about demand.

Stock of options

Profit is still a dirty word in some parts of France, which has enshrined the concept of *ègalitè* in its national ethos. Any government that seeks to promote entrepreneurial risk has to proceed with extreme caution if it is not to be accused of encouraging inequalities of wealth.

This seems to be thè sorry lesson of the Socialist-led government's efforts to introduce an expanded system of stock options. A set of proposals on stock options, intended largely to stimulate entrepreneurs to set up new high-technology companies, has had to be shelved, albeit temporarily.

The government's idea was sound, and it was framed in the knowledge that France has lagged behind the US, and to a lesser extent the UK, in promoting risk capital ventures, which are important generators of jobs.

The finance ministry sought to change a scheme set up by the previous government. It wanted to shift the emphasis towards rewarding risk among those setting up and operating companies, while closing the loopholes for avoiding income taxes. A secondary objective was to try and ensure that stock options were not just limited to directors but were also available well down the management ladder.

The scheme foundered because of opposition from two quarters. It was attacked by leftwingers within the coalition government and by business interests.

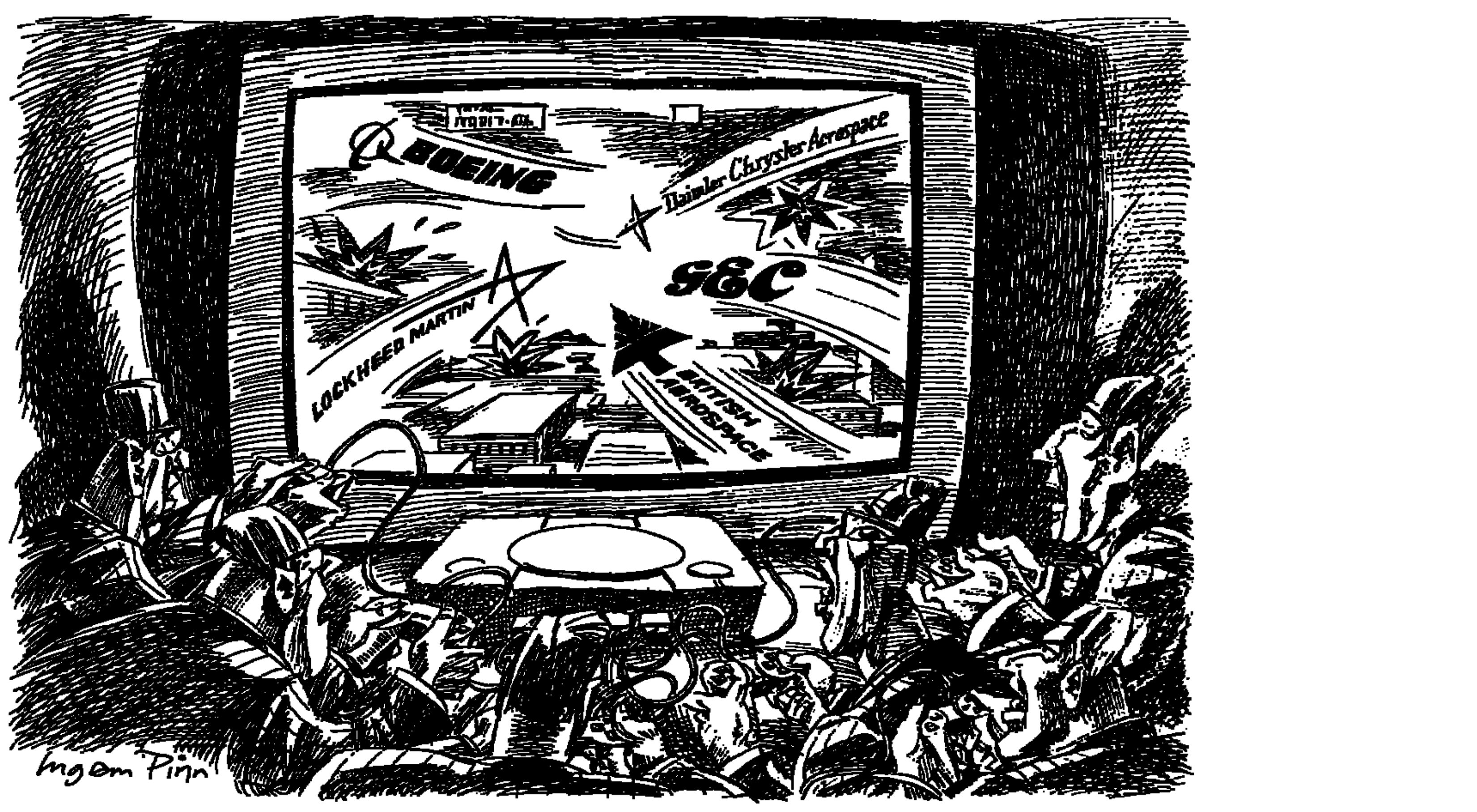
On the government side, the communists and their leftist allies claimed the proposals were a thinly disguised means of helping businessmen to make more money and pay less tax at a time when most Frenchmen can expect only modest rises in incomes. The left more generally objected to the essentially "Anglo-Saxon" concept of this type of reward for management.

As for the entrepreneurs, they opposed parts of the scheme not least because it would have forced them to be more transparent in declaring directors' pay packets. Until now these have been kept well away from the public eye, and little information is available in company reports. Such lack of transparency is traditionally justified by fears of antagonising the employees should the true nature of directors' earnings be known. Business also doubted the feasibility of extending stock options to a broad swathe of the workforce.

The government claims it is committed to reformulating its proposals and has promised to table them again at the end of March. It must make good this pledge. That Lionel Jospin, the premier, is now talking of a more francophone version of stock options labelled *bons de croissance* (growth bonds) is an encouraging sign of his continuing pragmatism – playing to his audience on the left while accepting the economic realities dictated by the market.

Gunfight at the UK corral

British Aerospace wanted to create a pan-European defence business. But when a UK rival went on the block, this plan took second place to its commercial interests, says Alexander Nicoll



"If this were a deal between two French companies, imagine the reaction in London. We would have been accused of being Franco-French, of seeking Gallic rather than European solutions."

So said a French industrialist after British Aerospace yesterday threw into disarray the grand restructuring of European defence that has been proceeding fitfully for years. BAe confounded the European defence companies it has been wooing into a grand alliance by announcing plans for what Europeans immediately dubbed "Fortress UK" – the £7.8bn acquisition of Britain's second biggest arms company, the Marconi division of General Electric Company.

The move would create Britain's largest manufacturing company and the world's third-largest defence company – the second largest after Lockheed Martin if only sales of weapons systems are taken into account.

Until Christmas, BAe had been in merger negotiations with DaimlerChrysler Aerospace (Dasa) of Germany with the aim of starting to build a European aerospace and defence company – a concept BAe itself invented.

BAe insisted yesterday it remained wedded to the pan-European idea. But it was clear from the reactions to its "UK first" deal that progress towards a European company had been set back, perhaps for years, because the all-British company is so much larger than any potential European partner.

Denis Ranque, chairman of Thomson-CSF of France, whose offer for Marconi did not match BAe's, said: "This move is not the most helpful one in starting European consolidation." Dasa said: "If the BAe/GEC merger proceeds as announced, it will make balanced European horizontal mergers such as Dasa/BAe impossible and create an obstacle to European integration."

Nobody would dispute that Europe's defence industry needs consolidation. Whereas the US is dominated by four defence contractors, each with annual sales of over $5bn, Europe has only one such company, BAe. The only argument is about the route.

BAe has said the best way to ensure the survival of Europe's many smaller aircraft and defence electronics companies is to bring them together into one company that operates in many national markets. Eventually, there would have to be a link-up with the US – by far the largest defence market. But first the Europeans would have to link up. If they did, they would create a group with enormous potential (since it
would include Airbus, one of only two significant civilian aircraft makers in the world). If they did not, Europe's capabilities would slip into US hands, BAe's argument went.

Governments signed up to the concept. A December 1997 statement by the heads of government of Britain, France and Germany called on BAe, Dasa and Aerospatiale to present a plan for integration. To show willing, France's Socialist government moved last year to reduce its stakes in Thomson-CSF and Aerospatiale to below a majority – only to be severely disappointed as it became apparent that BAe and Dasa initially planned a bilateral merger without the French.

BAe's deal with GEC has certainly changed the European landscape – but not in the way that governments and the rest of the defence business foresaw.

What changed BAe's plans? Essentially, it was the hurry of one man, Lord Simpson, GEC's managing director since 1996. Having inherited a group run conservatively by Lord Weinstock for 33 years, he was desperate to raise the return to shareholders. Sales of various activities and the flotation of Alstom, the Anglo-French power engineering joint venture, went some of the way. But for the man who, as a BAe executive, sold Rover to BMW, a master-stroke was still needed.

Yesterday, Lord Simpson produced it. After building up the defence side through a joint venture with Alenia of Italy and the £1.4bn ($2.31bn) purchase of Tracor, a Texas electronics company, he sold it.

After a lot of analysis of potential moves to restructure the defence industry, he decided the savings which Marconi could make as part of GEC were less than it could make as part of a larger defence group. One option would have been to expand Marconi, but GEC determined the sale to BAe would generate maximum value for its shareholders.

This was a shrewd calculation by Lord Simpson and John Mayo, his finance director. Who wanted Marconi most? The answer had to be BAe, which was put under strong pressure by a strict auction timetable set by Mr Mayo.

Behind the scenes, subtle attempts were made by GEC to cast doubt about the wisdom of the deal with Dasa which BAe seemed on the point of clinching. John Weston, BAe chief executive, acknowledged the pressure: "Our understanding was that there was a competitive process going on in which we were not the only player."

GEC had a powerful argument. BAe's nightmare was that a US company such as Lockheed or Raytheon would step in to snap up Marconi, and be able to compete with BAe for UK Ministry of Defence contracts "wrapped in the Union Jack". While BAe sought to broaden its base in Europe, its home market would be eroded by foreign competition.

Although BAe may have been forced into yesterday's agreement at an embarrassing pace, there was no disguising the delight of its top executives at buying Marconi. Talks between the two companies first began in 1984 and have been going on sporadically since 1992. Sir Richard Evans, BAe chairman, said the acquisition was a "leap forward for BAe in terms of its strategic position". Mr Weston said: "This is the move I would choose first."

The merger creates a company even more committed than before to the Eurofighter combat aircraft programme. It has reduced its dependence on the financially embarrassed Middle East – especially the giant Al-Yamamah contract in Saudi Arabia – from 49 per cent of sales to 34 per cent. And it has raised its presence in the US from 12 per cent of sales to 22 per cent.

To get all this, BAe has paid a price which, Sir Richard acknowledged, gave GEC "full and fair value". Mr Weston estimated that he was paying a 30 per cent premium for Marconi but said this was "not unreasonable".

Initial market reaction yesterday suggested the City was unconvinced. BAe's share price fell sharply. Sir Richard insisted the acquisition would not dilute earnings even in the first year after completion. But BAe will have its work cut out to persuade the City that it is not overpaying.

Two wider questions remain: will competition for UK defence contracts be unduly restricted by the removal of one of the two main contractors? And what next for European consolidation?

Lord Simpson said GEC and BAe had been "in quite intense discussions with the British government and clearly they understand what it going on. I think you will find they are generally supportive." But the deal will still have to passed by Britain's competition authorities.

The creation of one large UK defence company means the only competitors with BAe would probably be foreign. Mr Ranque of Thomson, which has 6,000 employees in the UK, said he required reassurance that the UK government, which is reforming its arms practices, would continue to operate open competitions for contracts.

European governments had recognized the number of competitors would diminish when they urged cross-border integration of the main European defence manufacturers. It would hardly be logical to stop the first merger, even if it is between two British companies. France too has acted to rationalise by restructuring Thomson and through the planned merger of Aerospatiale and Lagardère's Matra division.

The biggest cloud, therefore, hangs over the prospects for the trans-European consolidation of which BAe itself has been the strongest advocate. Nothing can be decided involving BAe while Britain's competition authorities are scrutinising the merger.

BAe, which holds 35 per cent of Saab of Sweden, is negotiating similar holdings in Casa of Spain and Alenia of Italy. It argues it will continue to have strong links with European companies through joint ventures in missiles, satellites, sonar and electronic systems, as well as through its partnership in the Airbus consortium. "It is inconceivable that those companies would turn their backs on those linkages," Sir Richard said.

In the longer term, perhaps, that may be true. But European reactions yesterday suggested that in the short term, it will be a bumpy ride towards a pan-European defence group. The restructuring of Airbus into a single corporate entity is on hold. Dasa, Thomson and Aerospatiale are likely to explore links which could create a force able to compete with the expanded BAe. The danger for BAe is that American companies, already alert to the possible creation of a "Fortress Europe" which could limit their export prospects, will capitalise on European discontent.

The world's biggest defence contractors

Company	Country	1997 Defence sales ($bn)	1997 Group sales ($bn)
Lockheed Martin	US	18.50	28.00
BAe + Marconi	UK	15.86	32.08
Boeing	US	13.78	45.80
Northrop Grumman	US	8.20	9.15
Raytheon*	US	6.27	13.70
Thomson-CSF***	France	4.18	6.42
TRW	US	3.80	10.80
General Dynamics	US	3.65	4.06
United Technologies	US	3.31	24.71
Litton Industries	US	2.92	4.18
DaimlerChrysler Aerospace	Germany	2.73	8.54
Lagardère**	France	2.23	10.98
Aerospatiale**	France	1.93	9.38

*Raytheon reported sales of $13.7bn in 1997 but the latest year's total will be boosted to some $20bn by its acquisition of the Hughes defence and Texas Instruments defence electronics businesses

**Aerospatiale is due to be partially privatised in 1999 through the merger with Lagardère's defence arm Matra, and is also due to take over the state's 46% stake in combat jet manufacturer Dassault Aviation

***Thomson-CSF claimed consolidated sales of FFr45-50bn ($8-9bn) after it took over Dassault Electronique and some defence electronics businesses of Alcatel as part of its partial privatisation in 1998

Source: Defense News

OBSERVER

Together in Electric dreams

There was a spectre at yesterday's orgy of self-congratulation held to celebrate the re-birth of General Electric Company into a cash-rich telecommunications player that its inspiration and chief architect will find hard to recognise.

Lord Weinstock, the old warhorse of British engineering, who in more than 30 years at the helm made GEC in his own image, was in the office yesterday as his successors indulged in a bit of back-slapping with the boys from British Aerospace. "Project Superbowl" – one of those much-loved code words given to such momentous events – in the view of BAe chief Sir Dick Evans is a "win win" transaction."

But the group's 74-year-old chairman emeritus was keeping his own counsel over a deal which drew down the last curtain on a strategy and business culture – and in which he had no part to play. Lord Simpson, the personable and unpretentious GEC boss, said he spoke to Weinstock from time to time as "a matter of courtesy" but he'd been rather busy over the last few days and hadn't had time to keep him up to date on fast-moving events.

Weinstock, he added, was no doubt trying to get in touch, even as he spoke – adding pointedly: "He *has* retired, you know."

"If we had not done what we did today, I don't know what would have happened to GEC. It would have been a very different and sad story. Arnold doesn't agree with everything I'm doing. But what I've done with the share price keeps him happy."

But what will Weinstock, the man who brooked no argument in his mission to make GEC a power in the land, make of it all?

Maybe not a lot. But even he might have to concede that the world has rapidly moved on from the conservative, risk-averse environment and complicated joint ventures he championed – and which for so long did GEC proud.

And what would Weinstock make of John Mayo, the reputedly clever chief financial officer who, at 42, is the pushy powerhouse behind many of the new ideas that will drive the new GEC onwards?

Mayo has been compared to a "whirling dervish" over the last few days, sparking off Simpson and revelling in the deal-making he so clearly enjoys. Even he reckoned he was flagging badly by yesterday lunchtime, though still able to talk passionately of the departing Marconi as "the pretty girl at the defence consolidation dance".

A strategy man, who's not averse to doing down competitors in private, he relishes the changes at GEC: "This is not how Arnold Weinstock ran the business." Alluding to the frustrations that built up among many of GEC's younger executives, he volunteers: "It must have been quite hard managing in those days."

Between then, Simpson and Mayo certainly appear to have played their cards well. Having first expanded Marconi through acquisitions, making it appear like an ongoing business, they decided it had to be part of something bigger or risk getting squeezed out.

From the start, BAe was left in no doubt that others would be in with a chance. There were hints of a US link-up and the prospect of a deal either with Thomson-CSF or the Americans. The few careful announcements that were made raised expectations and boosted the share price, and the conviction was that BAe would be prepared to pay a lot to prevent the business going elsewhere.

But not everyone is smiling as broadly as Simpson and Evans and Mayo now the deal is done. The merger makes a rotten first anniversary present for Denis Ranque, chairman of Thomson-CSF, who's cross at being shoved aside.

A year ago, the Marseilles-born doctor's son was seen as the perfect man to broker an alliance with GEC. After all, the bespectacled 47-year-old had previously been head of Thomson Marconi Sonar, the sonar systems joint venture.

One consolation for Ranque is that the fall-out may benefit him in future negotiations, since it appears he's not prepared to squander shareholders' resources by paying any price to forge the sort of European alliances the politicians want.

And there's one other player in the European defence theatre who's not best pleased. Enter the muscular Jurgen Schrempp, boss of DaimlerChrysler Aerospace, who's also been left at the altar by BAe.

Schrempp and Evans go back a long way and are always happy to say how well they get on. Evans was at it again yesterday, saying he had an "excellent personal friendship" with the man known as "Neutron" Jurgen because he can eliminate buildings while leaving people intact. Last night, it looked as though the famous relationship will be under intense pressure.

But spare a final thought for Lord Weinstock of Bowden in the County of Wiltshire. The music-loving, race-going giant of British industry has one more shock to come. When all the brouhaha has died down, the company which became his life is, in a final change with the past, to consider a new name.

Mayo rejects it, but what better name for this new high-tech, high-margin, high-growth company than GEC.com?

The Financial Times 100 years ago

Rivalry With America
We referred last week to the elation which is being felt in America on the fact that the States were obtaining orders to supply locomotives for English railways. It is satisfactory to find that the reason the orders went to our Yankee cousins was that our engineering firms had their books full to overflowing, and were consequently unable to deliver in time. It is still more gratifying to report that an order for twenty locomotives was last week placed in Scotland for Japan. The Japanese have apparently realised that English makes are the best, as previously all orders from the land of the Mikado went to the States.

50 years ago

Trade With Czechoslovakia
Prague, Jan. 19. Britain was Czechoslovakia's second best customer last year, with the Soviet Union taking first place, according to figures published here. Top exporting country to Czechoslovakia in 1947 with 3,358m crowns' worth, Britain increased her figure in 1948 to 3,816m. In 1948 Britain received from Czechoslovakia considerably fewer goods than in 1947.

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FINANCIAL TIMES
WEDNESDAY JANUARY 20 1999

BUILDING HOMES OF INDIVIDUALITY FROM SCOTLAND TO THE SOUTH COAST
Bryant Homes

THE LEX COLUMN

Fortress Britain

Did British Aerospace's shares really deserve to slide 18 per cent this week? One *rationalisation – that it overpaid for* Marconi – does not quite hit the mark. If BAe's shares had been rock solid, the purchase price of £8bn would indeed have been excessive. But the current value of just under £7bn looks fair, if full.

Essentially, BAe has paid for Marconi with what until this week was an inflated currency. BAe's shares were riding high because investors believed it was on the point of clinching a value-enhancing deal with DaimlerChrysler Aerospace (Dasa). And now, with that deal seemingly slipping from its grasp, the puff has come out of BAe's shares.

So has BAe been silly? Certainly, the industrial logic of a horizontal link with the Germans was more compelling than the all-British vertical arrangement BAe has chosen. The snag is that the financial logic of a BAe/Dasa was never quite as good as investors hoped. Daimler would have had a 40 per cent stake in the combined company, far more than any other shareholder. That would have meant BAe was paying a premium for Dasa while ceding effective control. Moreover, Daimler was apparently trying to siphon DM1bn-DM2bn out of Dasa without making countervailing adjustments to its stake.

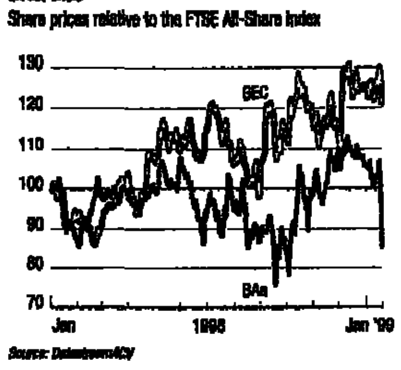
That said, BAe does seem to have fallen for GEC's bluff that it had other attractive options. Like BAe/Dasa, GEC's "dream" deal with Thomson of France was never quite what it was cracked up to be. True, a Thomson/Marconi combination is the sort of horizontal deal that makes perfect industrial sense. The worry, again, was the financial logic.

The French were insistent on a 50:50 split despite the fact that their business on a stand-alone basis was worth perhaps £4bn to Marconi's £6bn. Thomson's proposal to even things up by making a cash payment of £1bn-£2bn was not really enough – particularly since potential synergies could not be fully realised given the French reluctance to close factories.

Add in Thomson's insistence on embedding in the new company's statutes a provision that its senior executive should be French and it is easy to see why the deal was not a runner.

All this puts yesterday's anger from the jilted partners in context. Dasa and Thomson cannot really expect BAe and GEC to sacrifice shareholder value to satisfy considerations of *amour propre*.

BAe/GEC
Share prices relative to the FTSE All-Share Index



Source: Datastream/ICV

Still, there is no disguising the fact that the BAe/Marconi deal has put a spanner in the work of cross-border European defence restructuring – at least in the short run. After all, with the new BAe set to be about 50 per cent bigger than the old one, it will now be even harder to satisfy French and German national pride. Of course, it is just possible that BAe/Marconi is the sort of shift in the tectonic plates needed to spur Europe's defence industry into action. But that is not the way it looks today.

General Electric Company

Now that Lord Simpson has married off Marconi Defence Electronics, he is talking up the attractions of the rest of GEC as a high growth, high-technology business. The growth claim is reasonable – telecommunications profits rose 21 per cent in the first half while industrial electronics grew 14 per cent. As for being high-tech, Lord Simpson has saved himself from jibes about tumble driers by parking GEC's domestic appliances and weighing machines in GEC Capital – where he will extract value from them until a buyer comes along.

Marconi Communications has some impressive technology such as wave division multiplexing. But at Marconi Systems there is still a gap between the reality of fuel pumps and inkjet printers and the talk about e-commerce and automatic data capture. The key to narrowing this gap lies in GEC's acquisition plans. With £2.7bn of spare cash it could comfortably spend £5.5bn, and it is encouraging that some of this will go towards small punts on emerging technologies. But it may take as long to change investors' views of GEC's valuation as it will to transform its culture.

Stripping out BAe's offer price puts an implied value of £9.5bn on the rest. Take off £2.7bn for the cash, and £750m for the Alstom stake, and the telecoms, systems and GEC Capital businesses are valued at £6bn. On a multiple of 23 times, Marconi Communications could be worth that alone. Whether the value in the shares is realised will depend on how GEC spends its cash.

@Home/Excite

As usual when it involves the internet, the concept is tantalising. Excite is one of the net's better-known search engines and "portals" – 20m people have a personalised web page on its site. @Home Network provides high-speed internet access over broadband cable networks, passing 60m homes in the US. Marry the two and you can pipe Excite's customised content into homes much faster than over telephone lines and, ultimately, across all sorts of devices spanning computers, televisions and pagers. As for making money, the hope is that advertisers as well as consumers will flock to such an all-encompassing service.

And, as usual, reality lags far behind the vision. @Home has just 330,000 subscribers. Although the total is growing rapidly, @Home clearly hopes Excite's name will tempt more people to sign up. For that it is willing to pay a fancy price. Its $6.7bn offer, at a 57 per cent premium, values Excite at more than 40 times forecast 1998 revenues. That may be reason enough to sell. But Excite is aware that it is lagging far behind rival Yahoo!, and has been looking for a partner ever since Netscape, another rival, was snapped up by America On-line.

More worrying is the thought that investors will see a deal like this as a validation of inflated internet stock prices. Since @Home is paying entirely in its own high-flying stock that would be a dangerous conclusion to draw.

Cardoso pledges to keep Brazilian inflation down

By Geoff Dyer in São Paulo

President Fernando Henrique Cardoso yesterday promised ordinary Brazilians that last week's devaluation of the Real would not bring back high inflation.

He said it "will not have any direct impact at all on the pocket of the Brazilian people", adding that if Congress approved the government's fiscal austerity programme growth would resume in the second half of the year.

To reduce the upward pressure on prices, Mr Cardoso's government unveiled plans to lower tariffs on imports. The central bank also raised the overnight interest rate, the most important rate for economic activity, following an increase in the prime lending rate on Monday, in an effort to calm markets and curb inflation.

Bolivar Moura Rocha, a senior official at the new ministry of development, said the government would use lower import tariffs as one of its main instruments for maintaining low inflation. There would be no exceptions to the tariff cut. "We will not permit price stability to be shaken," he said.

The government would closely monitor prices and examine possible sanctions for "abusive price increases", he said.

Mr Cardoso has won two presidential elections because of his success in reducing inflation, which reached an annual 2,000 per cent in 1993. While the fear the crisis has provoked among politicians is expected to boost support for Mr Cardoso's fiscal reforms in the short term, political analysts said a sharp increase in prices would weaken him considerably.

The central bank yesterday increased the overnight interbank rate from 29.8 per cent to 32 per cent. About 65 per cent of government debt is linked to the overnight rate. On Monday evening the bank raised the ceiling for interbank rates from 36 per cent to 41 per cent.

Economists said the fiscal cost of the rate rise would depend on how long the government kept keeps rates high. Francisco Lopes, president of the central bank, said the fiscal impact would be "very transitory".

The rate rise helped reduce volatility in Brazil's financial markets. The Real was trading yesterday at R$1.59 to the US dollar, unchanged from Monday's close, while the Bovespa stock index in São Paulo was 1.04 per cent higher by mid-afternoon.

Investors were focusing on Congress, where senators were due to vote on an increase in a tax on financial transactions, which the government was expected to win comfortably.

The lower house is to vote today on a controversial proposal to increase civil service pension contributions.

"At the moment, legislators view the rate rise as a natural consequence of the devaluation, but they don't want it to last too long," said David Fleischer, a political analyst in Brasília.

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Pegging out, Page 12

Japan looks to private sector to help revive ailing economy

By Paul Abrahams and Michiyo Nakamoto in Tokyo

Senior members of the Japanese government have warned there is a limit to how much more the state can spend to pull the country out of its worst recession since the 1930s.

The government had taken all the action it could to revive the economy, said Akitaka Saiki, the prime minister's deputy press secretary. "What is necessary now is for the private sector to utilise [these] measures. The private sector must do its part. The government alone cannot revive the economy," he insisted.

The authorities are concerned that a big increase in the issuance of Japanese government bonds – required to fund the stimulus package – could force up long-term interest rates, a move that could hold back economic growth.

Tax cuts worth Y9,000bn ($79bn) and a 5 per cent increase in discretionary spending would force Japan to issue Y31,100bn of new bonds next fiscal year, said Kiichi Miyazawa, finance minister. Japanese government bond prices slipped sharply yesterday after a disappointing auction of 20-year government bonds. The yield on the benchmark 10-year bond jumped from 1.725 per cent to 1.865 per cent in Tokyo.

Taichi Sakaiya, economic planning minister, said the country was facing a "national economic crisis". However, Keizo Obuchi, prime minister, reiterated his pledge to achieve economic growth of 0.5 per cent next fiscal year.

Mr Miyazawa admitted the economy remained in a severe slump and that the government's massive spending plans, aimed at boosting the economy, would inevitably lead to a rapid deterioration in the fiscal deficit. But in an apparent warning to those in the ruling Liberal Democratic Party who want to spend more, he cautioned that eventually Japan would need to implement fundamental fiscal reform.

The government's hopes that the private sector will take over from them appear over-optimistic. Dire consumer demand has led to high inventories, production cutbacks and a collapse in corporate investment. The Japan Machine Tool Builders' Association said domestic demand during December plunged 42 per cent compared with the same month of 1997, while overseas demand dipped 14.4 per cent.

The collapse in consumer demand last year – combined with a credit contraction – resulted in the worst level of bankruptcies since 1983. Nearly 19,000 businesses failed last year, owing Y13,730bn, the third worst figure since 1945, according to Tokyo Shoko research, the credit research group.

Government measures to inject liquidity into the corporate sector during November and December appear to have alleviated the problem. The number of bankruptcies last month fell 62 per cent year on year after the government had injected about Y10,000bn into companies under a new scheme.

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Jordan's King Hussein waves to crowds yesterday after returning to Amman following cancer treatment in the US. Report, Page 6 Reuters

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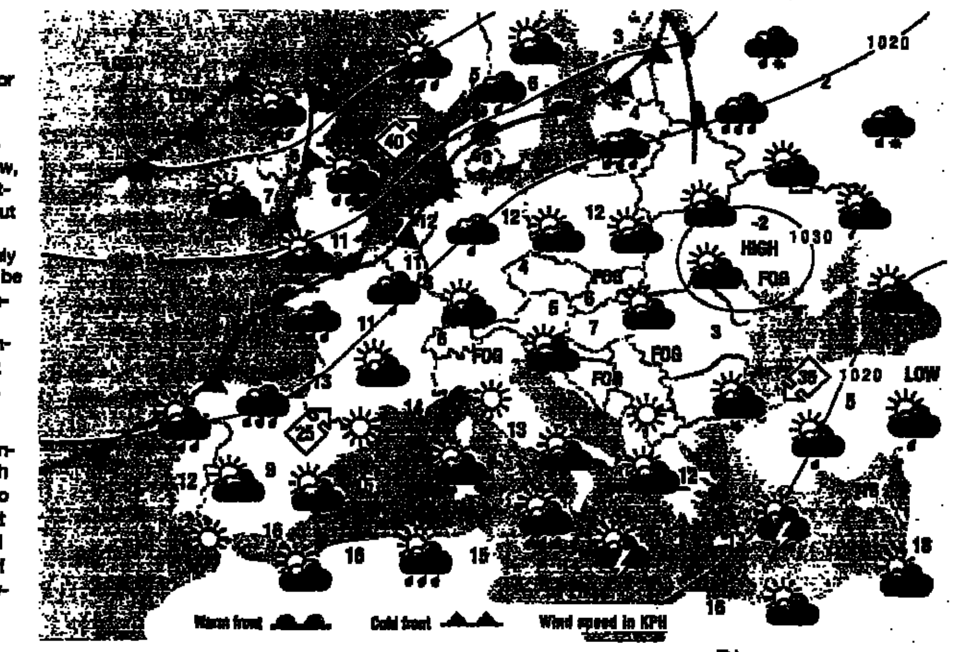
FT WEATHER GUIDE

Europe today
North-west Europe will be fairly mild but unsettled with showers or longer spells of rain. Southern Scandinavia will become milder with snow turning to rain but further north there will be more snow, pushing eastwards. Much of eastern Europe will have some sun but the south-east could see fog patches lingering. Greece and Italy will be quite sunny but there will be a band of heavy showers or thunderstorms from Sicily to Crete. Rain will break out over the north-west of the Iberian Peninsula but there will be sunshine elsewhere.

Five-day forecast
The north-west and much of Scandinavia will be wet and windy with showers or steadier rain turning to snow in northernmost parts. Most of central and eastern Europe will be dry with sunny spells. Much of the Mediterranean will have showers, with heavier rain moving across the Iberian Peninsula.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	23
Accra	Fair	32
Algiers	Fair	16
Amsterdam	Rain	12
Athens	Sun	12
Atlanta	Sun	21
B. Aires	Thunder	29
B.ham	Sun	10
Bangkok	Sun	32
Barcelona	Sun	13
Beijing	Fair	1
Belfast	Shower	6
Belgrade	Sun	8
Berlin	Fair	12
Bermuda	Shower	22
Bogota	Cloudy	19
Bombay	Sun	33
Brussels	Rain	11
Budapest	Fair	6
C.hagen	Drzzl	8
Cairo	Fair	19
Caracas	Fair	29
Cardiff	Shower	10
Casablanca	Sun	18
Chicago	Fair	4
Cologne	Rain	13
Dakar	Fair	23
Dallas	Fair	23
Delhi	Fair	19
Dubai	Sun	24
Dublin	Shower	7
Dubrovnik	Sun	13
Edinburgh	Shower	6
Faro	Shower	15
Frankfurt	Fair	11
Geneva	Fair	8
Gibraltar	Fair	15
Glasgow	Shower	6
Hamburg	Drzzl	11
Helsinki	Rain	3
Hong Kong	Fair	16
Honolulu	Sun	28
Istanbul	Drzzl	6
Jakarta	Thunder	30
Jersey	Shower	12
Johannesburg	Fair	26
Karachi	Cloudy	27
Kuwait	Sun	19
L. Angeles	Shower	17
Las Palmas	Fair	20
Lima	Cloudy	25
Lisbon	Shower	12
London	Shower	11
Lux.bourg	*Fair*	9
Lyon	Fair	11
Madeira	Shower	18
Madrid	Fair	9
Majorca	Sun	15
Malta	Thunder	14
Manchester	Shower	9
Manila	Fair	29
Melbourne	Sun	24
Mexico City	Fair	22
Miami	Sun	27
Milan	Fair	8
Montreal	Snow	2
Moscow	Cloudy	2
Munich	Sun	11
Nairobi	Fair	28
Naples	Sun	14
Nassau	Shower	28
New York	Fair	7
Nice	Sun	14
Nicosia	Fair	18
Oslo	Fair	6
Paris	Rain	11
Perth	Sun	30
Prague	Fair	4
Rangoon	Sun	34
Reykjavik	Snow	-3
Rio	Thunder	29
Rome	Sun	13
S. Frsco	Shower	14
Seoul	Fair	2
Singapore	Shower	30
Stockholm	Cloudy	7
Strasbourg	Fair	10
Sydney	Shower	25
Tangier	Fair	15
Tel Aviv	Fair	18
Tokyo	Fair	13
Toronto	Fair	4
Vancouver	Rain	7
Venice	fog	8
Vienna	Fair	5
Warsaw	Fair	12
Washington	Fair	11
Wellington	Sun	25
Winnipeg	Cloudy	-8
Zurich	Fair	8

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PIRELLI
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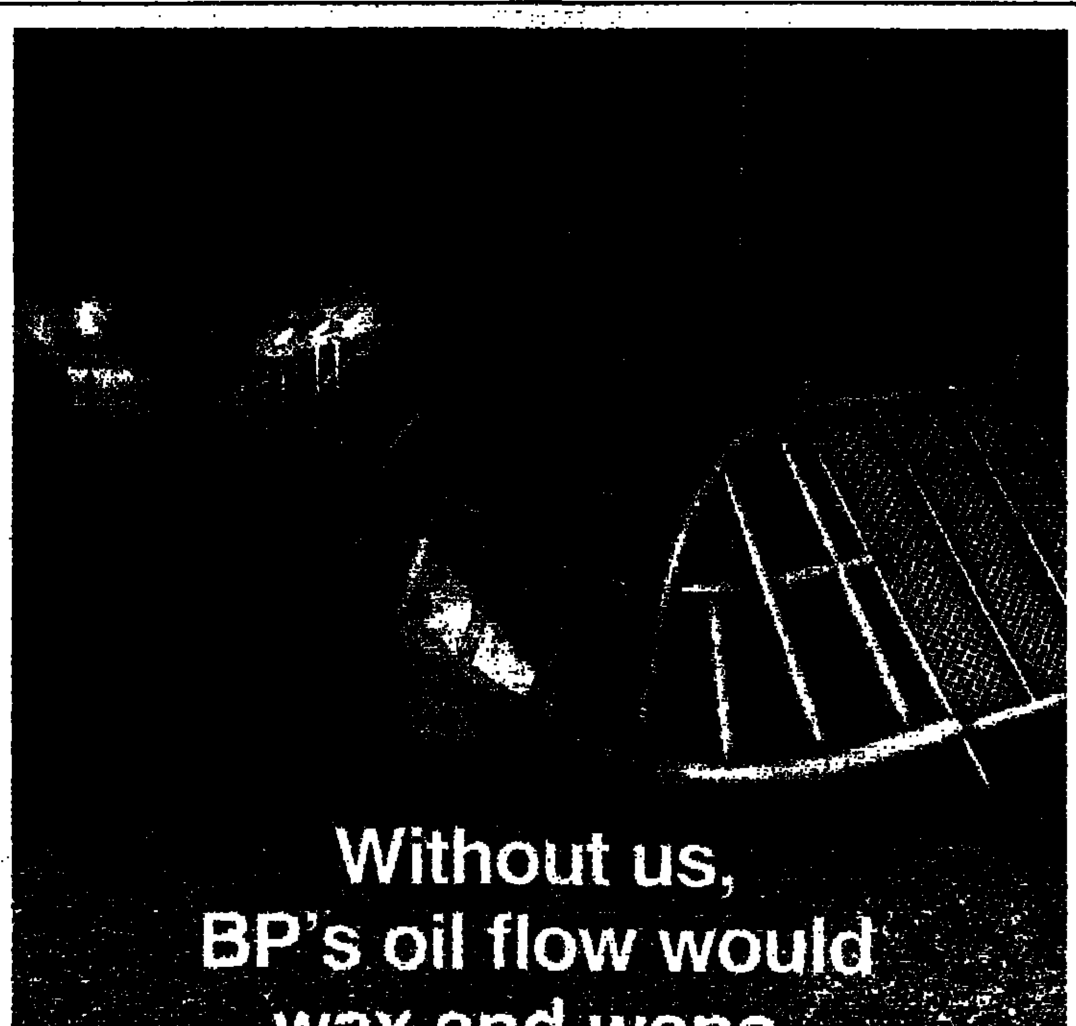

As hot oil from BP's North Sea Machar field travels 35km up from wellhead to platform, it cools rapidly, and the wax it contains solidifies on the pipeline wall. This wax could soon inhibit oil flow, but a pigging system specially developed by **GD Engineering** – part of **John Crane** – ensures that these oilfield arteries don't clog.
GD's unique sub-sea launcher uses pressure from the well to fire "pigs" – ribbed cleaning tools – through pipelines to scrape off wax and carry it back to the platform for removal, without interrupting operation. The success of their first satellite well designed to rely on GD's remotely-controlled launcher means that BP can develop wellheads even further from their platforms.
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FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

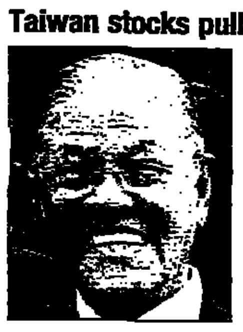
Rise in chip prices could lift Acer
The rise in prices for D-Rams, or dynamic random access memory chips, could end a string of losses by Acer, the Taiwanese computer giant which is battling narrowing margins and a declining brand profile. **Page 18**

Buildings group to offer telecoms
Equity Office Properties Trust, the US's largest owner of office buildings, has received permission from the tax authorities to offer advanced telecommunications services to tenants without jeopardising its tax-advantaged status. **Page 20**

Poor weather hits potato production
Months of wet weather in the UK and Europe have hit potato crops, and prices have jumped to £179 a tonne against £78 last year. Many farmers are unable to get the remaining crops out of the waterlogged ground, and supermarkets are having either to absorb the higher costs or raise prices. **Commodities, Page 26**

MMA intends to sell bank stake
Mutuelles du Mans (MMA), a French mutually owned insurance company, intends to sell its stake in Crédit Commercial de France, one of the country's 10 largest banks. The move has fuelled speculation that a long-awaited rationalisation of the sector is imminent. **Page 19**

Taiwan stocks pull back from depths



Taiwan shares opened 1999 with a 4 per cent fall to a 29-month low, dragged lower by concerns over the banking sector, bouncing corporate cheques, and a slide in exports. But the picture is not all bleak. The government of Lee Tung-hui (left) is pursuing vigorous stimulus policies, and prices on the Taipei index have pulled back from the depths plumbed on the year's first day of trade. **Emerging Market Focus, Page 36**

Japanese insurance company probe
The Financial Supervisory Agency, Japan's banking watchdog, is to examine the asset quality of the country's insurance companies in an effort to bolster its credibility. **Page 18**

Divisions as CBOT plans alliance
Divisions emerged among executives at the Chicago Board of Trade, the biggest futures market, days before a vote on the planned alliance with Eurex, Europe's leading derivatives exchange. **Capital Markets, Page 24**

India could capture herbal market
Demand for herbal medicines is spreading, and an Exin Bank of India study estimates world trade in medicinal plants at more than $60bn a year. As China becomes an increasingly erratic producer, India has a great opportunity to capture the market. **Commodities, Page 26**

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

AstraZeneca to switch to dollars

Merging drug groups reject euro as accounting currency

By Tim Burt in Stockholm and David Pilling in London

Astra and Zeneca, the Swedish and UK pharmaceutical groups planning a $35bn merger, are to adopt the dollar as the new company's main accounting currency.

The enlarged company, due to unveil its merger offer document this week, is expected to become one of the first European cross-border groups to switch to dollars since ABB, the Swiss-Swedish engineering group, opted for the US currency after its 1988 merger.

The decision is a setback for supporters of the euro in both companies. They hoped that AstraZeneca – as the new group will be called – would follow rivals Hoechst of Germany and Rhône-Poulenc of France by adopting the single currency.

AstraZeneca is much more exposed to the US market than Hoechst and Rhône-Poulenc, which in December announced their intention to merge their life science businesses.

Percy Barnevik, the Swedish industrialist who will chair the merged Anglo-Swedish group, is thought to have argued forcefully for the switch to dollars. Mr Barnevik is also chairman of ABB and Investor, Astra's largest shareholder and the main investment company of Sweden's Wallenberg business empire.

"He is convinced that the dollar will remain the most important global currency," said one adviser. The move follows talks between the two companies and stock exchange officials in New York, London and Stockholm, where the group will be listed.

It reflects AstraZeneca's growing reliance on the US market, where drug sales totalled $72.6bn in the 12 months to October 1998, compared with $51.5bn in Germany, France, Italy, the UK and Spain.

Between 1991 and 1997, the proportion of profits drug companies made in the US (before R&D costs) rose from 30 per cent to 41 per cent, while in Europe it fell from 50 per cent to 32 per cent, according to Scrip Magazine, a trade publication.

Currency translations on those profits have affected Zeneca in particular because of the strength of sterling. Zeneca has 2.1 per cent of the US drugs market, higher than its global market share. US sales account for more than 45 per cent of Astra's turnover.

While most other big European drug companies account in local currency, all give prominence in financial statements to underlying earnings in constant currencies. That increasingly means the dollar.

SmithKline Beecham, headquartered in the UK, is typical. Its financial statements, which include dollar figures for the profit and loss account and the balance sheet, emphasise "comparable rates of growth". It has less than 10 per cent of its drug sales in the UK and 49 per cent in the US.

Chase thrives as earnings fall at BankAmerica

By John Authers in New York

Chase Manhattan posted a strong increase in earnings in the fourth quarter, in spite of the turmoil in global capital markets, while BankAmerica, created by last year's merger of BankAmerica with NationsBank, suffered a severe fall.

BankAmerica, now the second largest US bank in terms of assets, reported a 20 per cent fall in net income to $1.16bn, compared with the previous year, while Chase, the third largest, saw a 32 per cent rise to $1.15bn.

Thomas Hanley, banking analyst at Warburg Dillon Read, pointed to Chase's success in tightening its risk management and cutting its Latin American exposures, and to BankAmerica's continued merger integration difficulties.

The results reinforced Wall Street's scepticism about BankAmerica, while adding to speculation that Chase is contemplating another merger of equals.

BankAmerica's problems were mainly caused by non-interest income. It suffered a trading loss of $43m for the quarter, while investment banking fees fell by $286m.

It also took a $441m charge after tax to cover the costs of the merger. It was the second such charge and the company indicated that it would take a third charge this year.

The company also continued to mark down its investment in D. E. Shaw, the Wall Street proprietary trading company with which the former BankAmerica had a strategic alliance. Its investment, previously valued at about $1bn, is now worth $770m.

BankAmerica also confirmed the sale of $13bn of the $20bn portfolio of bonds it bought from Shaw last October, while another $6bn had been absorbed into the company's trading portfolio.

Chase, which strengthened its risk management procedures after difficulties in the fourth quarter of 1997, enjoyed much stronger results from its global bank, which raised operating revenues from $675m in the fourth quarter of 1997 to $2.49bn. Its consumer banking and global services divisions also exceeded expectations.

The most frequently named candidates for a merger with Chase are First Union, the large Charlotte-based commercial bank and Merrill Lynch, the largest Wall Street securities firm, with which Chase held talks last year.

However, Dina Dublon, chief financial officer, tried to damp merger speculation. "We are confident we can achieve our financial goals without doing any deals. But we would consider a merger under the right terms – and that's the right financial terms and the right management terms."

By mid-session, Chase had risen $1⅞ or 2.5 per cent to $72¾, while BankAmerica was down 2.8 per cent or $1⅞ at $62¾.

Banks' growth continues, Page 20

Yoshikazu Hanawa, president of Nissan Motor, yesterday said he would allow a foreign group to buy a stake of 33.4 per cent or more in the company, giving the partner a seat on the board and veto power. Page 18

@Home's $6.7bn deal to buy Excite boosts internet stocks

By Roger Taylor and Louise Kehoe in San Francisco

Internet stocks rallied yesterday on news that @Home, which provides high speed internet access over cable TV, was buying Excite, an internet portal, for $6.7bn.

It prompted predictions from analysts that a wave of similar deals were on the way.

The link-up of Excite and @Home is the biggest merger in the internet sector after last year's $4bn acquisition of Netscape Communications by America Online.

The deal underscored the fierce competition among leading internet portals to build a dominant position.

AOL, Yahoo! and Microsoft have established themselves as global internet brands, forcing second line competitors, such as Excite, Lycos and Infoseek to look for partners.

News of the deal fuelled another round of buying in internet stocks. The Nasdaq composite index, which includes most technology stocks, rose more than 1 per cent by early afternoon to 2380.

@Home has access to a market of 60m cable TV users, which it can add to Excite's audience of about 20m.

Ford Cavallari, vice-president of internet strategies at Renaissance WorldWide, the management consultants, said he expected to see more deals.

Faced with low-profit margins and an overcrowded market, internet service providers are looking for ways to tap into electronic commerce and advertising. Lycos, one of the few independent portals left, is seen as the most likely target. Yesterday its shares rose 24 per cent to $109¼.

The @Home deal is particularly important for Excite because it gives the company access to the new market for high speed, or broad band, internet services.

AT&T, which owns 40 per cent of @Home, has an alliance with Excite, to promote its WorldNet internet service. It will now find it easier to move these customers seamlessly over to @Home's broadband service.

The price of $6.7bn paid by @Home in the all stock deal marks a premium of almost 90 per cent to Excite's pre-bid value of $3.4bn.

Lex, Page 14

Japanese bank to merge with weak rival

By Gillian Tett in Tokyo

Mitsui Trust and Chuo Trust, two of Japan's largest banks, plan a merger that could accelerate the pace of restructuring in Japan's bad debt-burdened banking industry.

The move is expected to increase the pressure on other weak banks, such as Daiwa and Sumitomo Trust, to make similar announcements. It may also encourage the banks to increase their requests for public funds.

A Mitsui-Chuo merger would provide a striking indication of the government's determination to promote consolidation before a planned injection up to Y25,000bn ($218.7bn) of funds into the banks' capital base this spring.

At present, the largest banks have indicated that they plan to apply for Y6,000bn of the Y25,000bn of public funds on offer. However, the Financial Supervisory Agency, Japan's banking watchdog, is now pressing them to raise this level considerably.

In particular, the FSA is determined to remove the weakest banks from the sector, either through mergers or nationalisation.

The "merger" is expected to leave Chuo Trust effectively rescuing Mitsui Trust in exchange for a large injection of public funds to boost its capital base. Yoshinobu Yamada, analyst at Merrill Lynch, said: "This is the first proper restructuring. It shows that the FSA is very serious about consolidation."

The deal also highlights how some traditional corporate loyalties are fragmenting in Japan. Sakura bank had been considered the most likely candidate to merge with Mitsui Trust, since both are members of the Mitsui *keiretsu*, or corporate family.

But Sakura is facing considerable business pressure and consequently in recent weeks the FSA and Bank of Japan have been scrambling to find alternative partners for Mitsui Trust, considered to be one of the weakest trust banks.

Mitsui Trust shares will be exchanged with Chuo Trust shares at a ratio of 10 to three. This appears to favour Mitsui shareholders, since Mitsui Trust has a market capitalisation of Y124bn at yesterday's share price of Y104, while Chuo Trust has a market capitalisation of Y118bn at the share price of Y516.

BARRY RILEY

Following the leaders

Momentum is rapidly becoming established as a big stock market theme of 1999.

Money is desperately chasing mega-cap stocks within a narrow range of sectors in spite of the already-high prices.

Before yesterday's overdue profit-taking, Vodafone's takeover of AirTouch had pushed its share price up by 25 per cent already this year, after rising 122 per cent in 1998.

The Efficient Markets Hypothesis says price momentum cannot work as an investment style. Past share price movements contain no information about the future. Indeed, statistics compiled by the consultants Style Investment Research Associates show a near random pattern for "return to historic price return" in the US over the past decade.

Last year, however, momentum began to pay off in the US. And in the UK momentum has offered more consistent rewards. Dresdner Kleinwort Benson regularly tracks 14 investment styles in the UK and the two winners in 1998 were both momentum-based.

One of these, relative earnings momentum, with 22 per cent outperformance, is based on skill at forecasting positive earnings surprises, and fund managers who get this right deserve their extra returns.

But simple historical price momentum delivered 11 per cent outperformance, and indeed this style has been successful since 1994.

Evidently these markets are being driven by liquidity and fashion, together with managers' aversion to risk against the benchmarks.

In the US the systematic neglect of value and smaller companies can be seen from the relative performance of the 18 Frank Russell indices that measure the stock market according to size and style.

Thus in calendar 1998 the returns varied from 45.1 per cent on the Top 200 Growth Index and 27 per cent on the Russell 1000 to minus 2.6 per cent on the Russell 2000 and minus 6.5 per cent on the Russell 2000 Value Index. The all-embracing 3000 Index returned 24.1 per cent.

In the UK the wave of mega-mergers is raising the stakes. After BP/Amoco we have had Zeneca/Astra and now Vodafone/AirTouch. Through these bids the UK market is effectively capturing some $130bn of foreign capitalisation.

Index trackers (and the still more numerous index-huggers) are being forced to sell smaller stocks in order to raise their weightings in these three giants, which if the deals all go through will account for 18 per cent of the Footsie (and 15 per cent of the All-Share) compared with 10 per cent previously.

Not surprisingly there are complaints from fund managers about benchmark distortion. After these mergers the top 10 UK stocks will account for 45 per cent of the Footsie.

If managers don't chase these stocks they will be exposed to very serious risks against the benchmark. If they *do*, the specific risks of exposure to a handful of mega-stocks are becoming daunting; remember that the average p/e ratio of the top six UK stocks is now over 40, whereas the p/e on the FTSE SmallCap (excluding investment trusts) Index is 14.

Mega-merger fever can be infectious. More and more top corporate executives are likely to respond to the apparent success of recent deals by hatching their own.

After all, this may be the only way for them personally to secure big stock option profits in a low-growth global economy. And mega-deals are what shareholders want.

Or are they? The question is whether investors are genuinely welcoming the potential benefits of the mergers, or whether share prices are simply responding to artificial technical shortages.

If the success of the momentum style indeed reflects market inefficiencies, active managers have a wonderful opportunity to exploit mispricing.

But the medium-term trends are powerful, and value managers are already suffering a crisis of confidence.

King Canute must have known that eventually the tide would ebb again; but he lacked a deep-sea diving suit.

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When size matters it is best to aim for being number one

Alexander Nicoll *explains how British Aerospace's acquisition of Marconi fits in to the changing global defence sector*

In the defence business, the big boys want to be prime contractors. Whether your industrial expertise is in making aircraft, ships, missiles or the electronics that go in them, what you want is the ability to control the whole contract as the "systems integrator".

With British Aerospace's acquisition of the Marconi defence division of General Electric Company, announced yesterday, BAe has made itself the only British company likely to win the prime contract for the largest defence programmes, *such as aircraft carriers or* combat aircraft.

The company becomes a much more important force on the world stage, able to compete for business in almost every area of defence: Marconi adds capabilities in shipbuilding and specialist areas such as avionics and radar, as well as missiles and munitions.

Marconi's civil electronics products, such as head-up displays for pilots, will also complement BAe's presence in civil aircraft: BAe has a 20 per cent stake in the Airbus consortium for which it makes the wings.

The group will be even more committed than before to the £42bn Eurofighter programme, now entering production. This week, BAe as prime contractor awarded Marconi a contract worth at least £250m for the ECR90 radar which will be the aircraft's primary sensor. Marconi estimates its total business from the aircraft at more than £2bn.

BAe is the UK partner in development and production of Eurofighter, of which Britain, Germany, Italy and Spain have ordered 620. BAe will assemble 232 aircraft for the Royal Air Force at its Warton, Lancashire, plant and is making the front fuselage, stabilising fins and the first stage of the aft fuselage for all 620 at nearby Samlesbury. The Eurofighter partners have high hopes for its export prospects.

*As part of a European con*sortium, BAe is bidding to supply the "beyond visual range" missiles which will be Eurofighter's main weapon, and has carried out a study for the Ministry of Defence on adapting Eurofighter for use on aircraft carriers.

BAe's military aircraft programmes include the best-selling Hawk trainer, the prime contract for the RAF's £2bn Nimrod 2000 maritime patrol aircraft, and upgrading of RAF Tornados. It has a 35 per cent stake in Saab of Sweden which makes the Gripen fighter.

As an Airbus partner, BAe has a strong interest in European governments, including Britain's, choosing the long-delayed Future Large Aircraft as their main transport plane. But it has also joined Boeing in bidding to supply the latter's C-17 transport to meet the RAF's immediate needs.

BAe's footing in other areas of defence has been less secure. Its Royal Ordnance munitions subsidiary has some successful businesses, such as the Heckler *& Koch gunmakers, hard*ened missile warheads, and high explosives, which it is manufacturing exclusively for the US Army.

In other areas such as bulk ammunition, however, it can no longer compete with lower cost producers abroad. The whole business is under review, with one *plant closure recently* announced.

Marconi's expertise in this area, such as in the AS-90 howitzer for the British Army, will thus be welcome. Marconi is also prime contractor on a $1.3bn (£812m) 155mm howitzer programme for the US Army and Marines. And it has important activities in missiles.

The area which BAe has been most anxious to boost, however, has been electronics. In the past two years it has acquired a stake in STN Atlas of Germany; it has taken over the former Plessey businesses of Siemens; and it has bought out its partner's stake in BAe Sema, a naval systems business.

Marconi will now become the core of its electronics business, with its expertise in avionics, radar, air defence systems, electro-optics, infra-red sensors and communications systems.

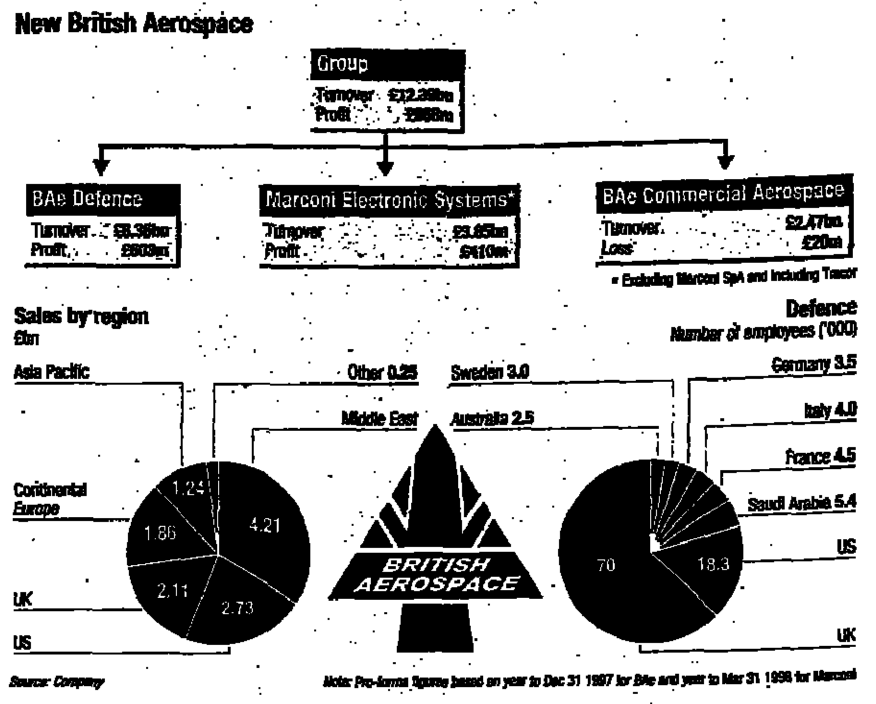
Marconi, which bought the former VSEL, is also one of two remaining British military shipbuilders. It is completing the fourth and final Vanguard-class Trident nuclear deterrent-carrying submarine and has the £2bn prime contract for three Astute-class submarines. By buying Marconi, BAe will remove a powerful competitor for the prime contract to oversee the development and construction of two new aircraft carriers.

BAe is emphasising, however, that the expanded future group is far from being all-British. It is tied to European companies through the Airbus consortium and through a series of joint ventures: in missiles, through Matra BAe Dynamics and Alenia Marconi Systems; in sonar, through Thomson Marconi Sonar; and in satellites, through Matra Marconi Space.

Marconi has substantial electronics interests in the US, where it last year paid $1.4bn for Tracor to become the sixth largest defence electronics contractor. BAe, meanwhile, has 5,500 employees in Saudi Arabia and is becoming an important defence contractor *in* Australia. It hopes to add to its spread of international interests – which includes a 35 per cent stake in Saab of Sweden – by buying holdings in Casa of Spain and Alenia of Italy. It is expected to seek similar participation in South Africa's defence industry.

BAe wants to become a broader European company. Whether it will be able to do so, however, will depend on reactions to yesterday's all-British deal.

New British Aerospace



Source: Company

Note: Pro-forma figures based on year to Dec 31 1997 for BAe and year to Mar 31 1998 for Marconi

FINANCIAL DETAILS

Cost savings of £275m likely by 2002

By Alexander Nicoll, Defence Correspondent

British Aerospace said yesterday it expected its acquisition of Marconi would enhance earnings per share by more than 10 per cent in the *third full financial* year following its completion.

It said the effect on earnings per share in the first year would be at *least* neutral before amortisation of goodwill and exceptional items.

BAe estimates the merger will produce annual cost savings of £275m by 2002, *including* £25m for the expanded BAe's share in cost savings from joint ventures. In the first year, £40m *of cost* synergies will be achieved, and £150m in the following year. BAe said the non-recurring costs of achieving these *savings* would be about £200m.

The acquisition is being achieved through the separation of *Marconi Electronic* Systems from GEC. In the subsequent merger, BAe will issue 1.17bn new shares to GEC *shareholders at the rate* of 0.42 BAe shares for each GEC share.

This will result in BAe shareholders owning 63.3 per cent of the expanded company and GEC shareholders 36.7 per cent, on a fully diluted basis.

To compensate GEC *shareholders* for the two companies' different dividend policies, they will receive loan stock paying £440m of principal and interest over four years.

GEC is passing Marconi Electronic Systems on with £1.55bn of net debt. The total consideration is thus more than £7.7bn, and the value of the new *BAe at yesterday's* closing price was £13.6bn on a fully diluted basis.

Pro-forma net debt of the expanded BAe will be £1.35bn, and net tangible assets £544m. Pro-forma profit before interest, tax, exceptional items and goodwill amortisation for 1997 is £968m, giving pro-forma interest cover of 11.7 times.

BAe's existing directors will continue unchanged. However, Peter Gershon, Michael Lester and Sir Charles Masefield will resign from GEC's board and join BAe's.

Dresdner Kleinwort Benson and Goldman Sachs are advising BAe. Warburg Dillon Read and Morgan Stanley are advising *GEC*.

GEC decides to turn its back on the past

Alan Cane *describes how the new group intends to embrace risk taking with its main focus on telecommunications*

The new GEC will be a risk-taking, technology-driven group with its eyes on growth, its main focus on telecommunications and £2.7bn in cash to fund its ambitions.

The contrast with the "old" company under former managing director Lord Weinstock could not be more marked. He hoarded cash, *distrusted technology and* preferred it when others pioneered risky new markets.

George Simpson, GEC managing director, said yesterday that there had been nothing wrong with the old GEC but the world had changed. The transformation would take time and effort: "Our management task over the next two years is to turn this ugly duckling into a beautiful swan."

The new GEC will be an altogether more exciting company, albeit a riskier one from an investor's point of view.

John Mayo, the group's finance director, said the changes would include a willingness to spend the cash pile and borrow, and an about-turn in dividend policy to provide funding for *growth: "We have a window* in history if we have the management strength and the guts to do it".

New GEC will comprise three divisions. The first will be Marconi Communications, representing about half the group's £3.7bn sales and the area with the greatest growth potential.

The second will be Marconi Systems, comprising a group of US-based technology companies. The third will be GEC Capital, consisting of large investments like GEC's 24 per cent stake in GEC-Alstom and a group of mature businesses managed for value rather than in the expectation of outperformance.

The US-based Marconi Systems companies are Picker, a specialist in medi*cal imaging technologies,* Gilbarco, world leader in fuel dispensing and point of sale systems and Videojet, the world number one in industrial coding: it builds printers capable of marking on virtually any kind of package.

Mr Mayo stresses that the importance of these companies is not their narrow specialism, but the access they afford to wider technological *developments. Picker, for* example, should be both using and developing communications technologies for the transmission of images.

Gilbarco, with advanced point of sale technology, is a business systems supplier with the world's garage forecourts as its oyster.

Videojet is less a printer company than a specialist in distribution able to keep track of every piece of merchandise it handles worldwide. *Its potential in the* ephemeral world of e-commerce is obvious.

The jewel in the crown, however, is Marconi Communications, created last year after GEC bought out Siemen's minority holding in their joint venture GPT.

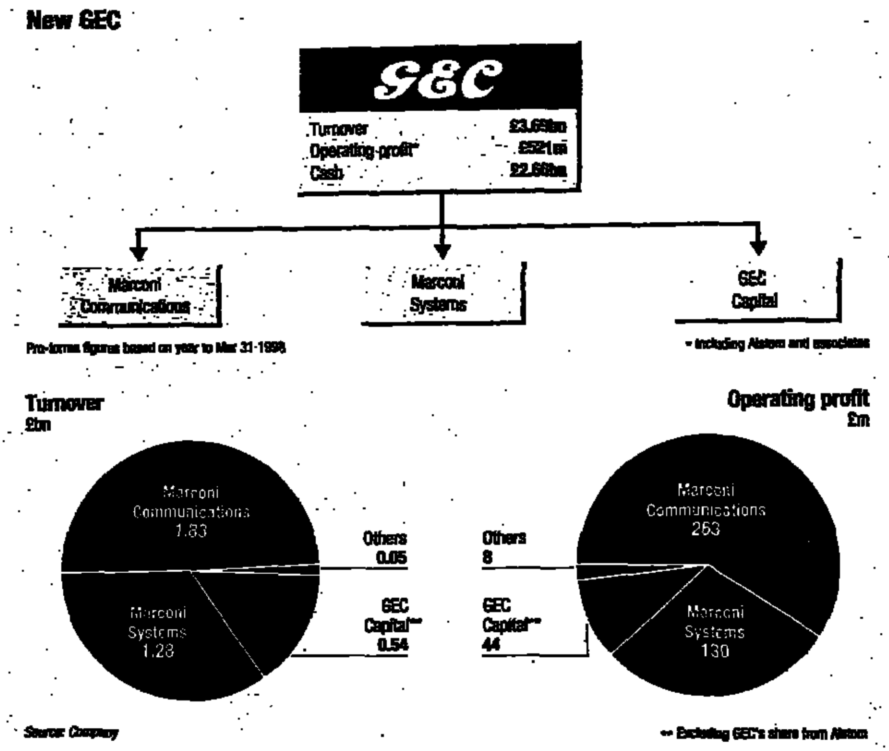
Mr Mayo said GEC's managers were surprised to discover how much how the technology flow had been from GPT's Coventry head*quarters to Munich rather* than the other way about. The decision to buy out the German manufacturer was the definitive step in restructuring the company.

The group is a world leader in optical communications and in some technologies which underpin the information superhighway. This is a market valued at $140bn (£87bn) a year and growing annually at $140bn.

Analysts say that the group is too small to compete with giants like Lucent of the US or Nortel Networks of Canada. *Mr Mayo* argues that at times of fast technological change, market share is a poor guide to future performance.

GEC will not, however, be spending its cash on internet stocks: "We know a South Sea Bubble when we see one," Mr Mayo declares.

New GEC



Pro-forma figures based on year to Mar 31 1998

Source: Company

** Excluding GEC's share from Alstom

This announcement appears as a matter of record only. January 1999

VEBA
AKTIENGESELLSCHAFT

Euro 1,000,000,000

Multi-Currency
Commercial Paper Programme

Arranger

Dresdner Kleinwort Benson

Dealers

COMMERZBANK Aktiengesellschaft — **Deutsche Bank**

Dresdner Kleinwort Benson — **Lehman Brothers**

J.P. Morgan Securities Ltd. — **Westdeutsche Landesbank Girozentrale**

Issuing and Paying Agents

Dresdner Kleinwort Benson — **The Chase Manhattan Bank**

Dresdner Kleinwort Benson

This announcement appears as a matter of record only. January 1999

VEBA
AKTIENGESELLSCHAFT

as Issuer and, in respect of Instruments issued by
VEBA International Finance B.V., as Guarantor

VEBA International Finance B.V.

as Issuer

Euro 2,000,000,000
Medium Term Note Programme

Arrangers

Deutsche Bank — **Morgan Stanley Dean Witter**

Dealers

COMMERZBANK Aktiengesellschaft — **Credit Suisse First Boston**

Deutsche Bank — **Dresdner Kleinwort Benson**

Merrill Lynch International — **J.P. Morgan Securities Ltd.**

Morgan Stanley Dean Witter — **Warburg Dillon Read**

Westdeutsche Landesbank Girozentrale

Deutsche Bank — *MORGAN STANLEY DEAN WITTER*

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Don't take our word for our success. Take theirs.

Corporate Finance – January '99
Top Banks of the Year
Investment Bank of the Year
Equity-Linked House of the Year

CFO Europe (The Economist) – January '99
Most Memorable Deals of the Year
Swiss Life GEMMS
Willis Corroon

Corporate Finance – December '98
Deals of the Year
Equity-Linked Offering of the Year – Swiss Life GEMMS
Equity-Linked Offering of the Year – Bell Atlantic (runner-up)
Equity Offering/Privatisation of the Year – Swisscom
Syndicated Loan of the Year – GEC
International Bond Deal of the Year – KPN (runner-up)
Yankee/144A Bond of the Year – Akzo Nobel (runner-up)
Buyout of the Year – Investcorp/Watmoughs – BPC
Buyout of the Year – KKR/Willis Corroon (runner-up)
M&A/Demerger of the Year – Coca-Cola Beverages (runner-up)
High Yield Bond of the Year – Sirona (runner-up)

Euromoney – January '99
Overall Winner of the Poll of Polls
– No. 1 Underwriting
– No. 1 Trading
– No. 1 Advisory

International Equity Review – January '99
Deals of the Year
Best Equity-Linked Debt Issue – Swiss Life GEMMS
Best Swiss Equity Issue – Swisscom
Best Privatisation Issue – Swisscom
Most Impressive Lead Manager of European Equity Issues

International Financing Review – January '99
Review of the Year 1998
European Equity House of the Year
Equity-Linked House of the Year
European Equity-Linked House of the Year
Equity-Linked Issue of the Year – Swiss Life GEMMS
European Equity-Linked Issue of the Year – Swiss Life GEMMS
Privatisation Issue of the Year – Swisscom
DM Bond of the Year – KPN
European Project Finance Loan of the Year – Saltend

Privatisation International – February '99
European Sale of the Year – Telekom Austria

The Treasurer – December '98
UK Convertible Deal of the Year – Bell Atlantic
International Convertible of the Year – Swiss Life GEMMS

Warburg Dillon Read, named "Investment Bank of the Year", *Corporate Finance*, January 1999.

Warburg Dillon Read

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CARMAKING 33.4% STAKE TO BE ALLOWED

Nissan chief positive on foreign tie-up

By Alexandra Harney in Tokyo

Nissan, Japan's second biggest carmaker, yesterday appeared to move closer to an alliance with a foreign rival after Yoshikazu Hanawa, president of Nissan Motor, said he would allow a foreign group to buy a stake of 33.4 per cent or more.

In his most revealing comments since rumours of a tie-up with DaimlerChrysler, Renault or Ford emerged this month, Mr Hanawa said a foreign company might buy 33.4 per cent or more of Nissan's shares and suggested that an even stronger equity tie-up was possible if the terms were right.

"We are not fixated on the 33.4 per cent figure. If the relationship is a deep one, [a stake] could exceed that," he said.

Under Japanese law, shareholders with a 33.4 per cent stake are automatically granted a seat and veto power on the board of directors.

Mr Hanawa also said talks with DaimlerChrysler could begin this week, when Juergen Schrempp and Robert Eaton, co-chairmen of the US-German vehicle group, arrive in Tokyo for a car exhibition. But he stressed that negotiations were likely to be lengthy and complicated and that a deal between DaimlerChrysler and Nissan Diesel, the truck and engine affiliate, was not a condition of an equity tie-up with the parent company.

"Nissan Diesel's issues are Nissan Diesel's, our issues are ours. We have not set any sequence (for addressing them)," he said.

Negotiations between Nissan Diesel, in which Nissan holds a 39.8 per cent stake, and DaimlerChrysler about a takeover are believed to have been hampered by concerns about the truck manufacturer's heavy debt burden. However, the two companies are expected to announce a deal this week.

At the same time, Mr Hanawa was optimistic about a potential alliance with Renault, the French carmaker that this week confirmed it was in talks with Nissan about taking an equity stake.

He dismissed concerns that Renault's recent profitability problems would make a tie-up difficult. "A company that is in the process of getting back on its feet might actually be easier to work with. I think our concerns would be similar and there would be many areas where we might be able to co-operate."

Hiroshi Moriyama, vice-president in charge of domestic sales, said a deal with DaimlerChrysler, Renault or Ford would benefit Nissan's product development capabilities.

Acer dream depends on recovering its memory

Healthy chip prices could end a series of losses at Taiwan computer group, says **Mure Dickie**

Stan Shih: 'We would like to show improved profit before considering raising new capital'

Acer has long touted the power of its vision, but what the Taiwanese computer giant really needs right now is healthy memory chip prices to bolster its balance sheet and buy the time to turn its dreams into reality.

Company officials and analysts say the recent rise in prices for D-Rams, or dynamic random access memory chips, could end a string of stunning losses by Acer's semiconductor unit that have dragged down the profits of a group already battling narrowing margins and a declining brand profile.

Acer this week postponed a long-planned international share issue, raising questions about its financing situation, but the easing of the company's chip headaches should help it focus on transforming its semiconductor strategy, developing new computer products and revamping its troubled North American operations.

Stan Shih, company founder and chairman, said last week that even if only conservative forecasts for standard D-Ram chips were borne out, Acer Semiconductor Manufacturing was likely to return to profit this year.

Acer owns about 50 per cent of the chip unit, a former joint venture with Texas Instruments that was once the biggest single source of earnings for the group but which became a millstone round its neck when the memory chip market collapsed.

Acer Semiconductor lost about T$5bn (US$155m) in 1997 and losses are estimated to have been similar last year despite heavy investment by the group.

"We are expecting a major improvement in the semiconductor area," says Mr Shih, who has been applying his much-vaunted vision to the unit's woes since he took direct control of Acer Semiconductor last year. "It looks like the investment will get a return in the near future because the overall market movement is in our favour."

Any such return will be especially welcome after a disappointing 1998 in which Acer cut its net profit forecast by more than half to a meagre T$2.5bn. It made net profits of T$3.8bn in 1997. Mr Shih says it is too early to estimate group profits for this year, but that they are likely to show a good improvement.

However, Nora Hou, analyst at China Securities, is doubtful that Acer Semiconductor will turn a profit for 1999. She expects it to lose less than T$110m, creating a valuable window of opportunity for the transformation of the units business.

Mr Shih, famous for a business vision that includes smiling curve margin graphs, fast-food logistics and an enthusiasm for fresh technology, has been bringing his unique brand of business management to bear on Acer Semiconductor since he passed the role of company president to Simon Lin last year.

The Acer founder has focused on reducing its reliance on the volatile D-Ram market by developing it as a foundry operation producing custom-made logic chips. The unit aims for between 10 and 20 per cent of its business to be in logic chips by the end of the year and for the proportion to rise to nearly 50 per cent by the end of 2000.

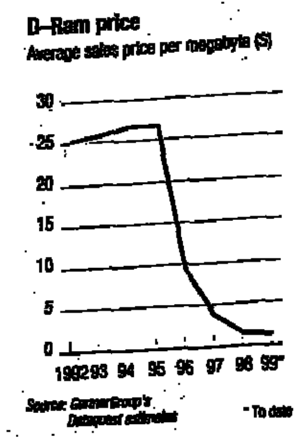
That transformation will require money as well as time – an issue rendered more acute by Acer's postponement on Monday of the issue of 200m shares in global depositary receipts. The company blamed market turbulence and currency instability for the move and said it planned to re-apply for permission to make the issue, which could be worth about $200m, as soon as possible.

Some analysts are concerned that the postponement leaves Acer with a shortage of funding. The group plans to plough more money into Acer Semiconductor in the third quarter of the year, when it also has to redeem preferred shares held in the unit. But Mr Shih says Acer originally budgeted for the purchase of the personal computer manufacturing business of Siemens of Germany - a deal that fell through in September – and that the GDR issue could be put off for up to a year.

"From my point of view we would like to show improved profit before considering raising new capital," he says.

Acer is also labouring to revitalise its North American operations, which have performed poorly, and to boost its own brand while retaining the solid earnings it generates from building and distributing computers for sale under other companies' names.

Mr Shih has often come under fire for his brand-building drive from critics who believe it distracts Acer from more lucrative, if anonymous, market strategies, but he insists there will be no let-up in the group's push for a higher corporate profile.



Bidders line up for BoA disposals

By George Graham, Banking Editor

Bank of America's retail operations in Taiwan, Singapore and India are expected to attract a string of offers from Asian, European and US banks when the deadline for preliminary bids passes tomorrow.

But the US bank, which put the units up for sale last month, may not be able to sell all three to a single buyer, investment bankers said. Bank of America has indicated a preference for selling the units in one go.

The Taiwan operation, with two branches and a credit-card portfolio, is expected to attract the fiercest competition.

Bank SinoPac, one of the fastest-growing private-sector banks in Taiwan, has submitted a bid and considers itself a serious contender. First Commercial Bank and Fubon Commercial Bank, two more local banks, have also shown interest.

HSBC Holdings and Standard Chartered, two UK groups with extensive retail banking operations in the region, may also bid.

Other international banks, including Citigroup of the US and ABN Amro of the Netherlands, have indicated their intention to expand in Taiwan, but it is not known if they intend to bid for the Bank of America business.

Some potential buyers are expected to bid for the credit-card business alone.

Citigroup and ABN Amro have also been reported in India to be the leading contenders for Bank of America's units there.

The Singapore business, much of which involves a car loan portfolio, is not expected to attract as much international attention, though local groups such as Hong Leong and Overseas Union Bank have contacted Bank of America.

The three units were put on the auction block after the completion of the merger between Bank of America and the more domestically focused Nationsbank. Completion of the sale could take some months.

Hugh McColl, the former Nationsbank head who is now sole chairman and chief executive of the merged group after the departure of Bank of America's David Coulter, has often declared his interest in expanding in the Pacific region. However, San Francisco, Seattle and Vancouver are the priority.

Nevertheless, Bank of America is retaining its commercial banking operations in Asia, and has also said it intends to expand its consumer operations in Hong Kong and Macau.

US bank results, Page 20

Asahi to double factory spending

By Alexandra Harney

Asahi Breweries, Japan's number one beer manufacturer, will double its capital spending on factories this year to upgrade facilities.

The company will use Y23.3bn of the Y39.8bn ($348m) it planned to spend on factories to raise efficiency at four breweries in Japan.

Asahi said it hoped to reduce the number of days from brewing to sale from seven to five and raise factory workers' productivity. It also aims to improve efficiency in its distribution network in Japan by making better use of its inventory system.

The move is the latest aimed at improving efficiency and increasing cash flow in the intense competition with Kirin, its largest rival in Japan.

Last week, Asahi said it overtook Kirin in sales in Japan in 1998 for the first time in 45 years, notching up a 39.5 per cent market share to Kirin's 38.4 per cent. Asahi's beer shipments jumped 5.6 per cent to 2.46m kilolitres, compared with Kirin's 2.38m. Asahi expects shipments to increase a further 10 per cent this year.

Although much of Asahi's success is due to its Super Dry beer, the brewer has undertaken several management reform plans to improve efficiency and reduce costs.

Hirotaro Higuchi, who was promoted from chairman to honorary chairman last week, said recently that he aimed to shrink the number of consolidated companies in the group from 93 to 35-45 by 2001 and was considering creating a holding company. This would allow Asahi to take advantage of tax benefits under Japanese law.

The company's shares fell Y5 to Y1,580 yesterday.

Japan watchdog to probe insurance assets quality

By Naoko Nakamae in Tokyo

The Financial Supervisory Agency, Japan's banking watchdog, will start to examine the asset quality of the country's insurance companies, according to Masaru Hino, head of the agency.

The move follows yesterday's announcement by Moody's, the US credit ratings agency, that its outlook for the industry remained negative, and that it may issue further downgrades.

The FSA is seeking to bolster its credibility amid the growing problems of the country's vast life insurance sector, which controls Y190,000bn ($1,680bn) of assets.

"We think there is a need to inspect insurance companies, taking into account the implementation from April of new standards to gauge the health of the nation's insurance companies' solvency margins," said Mr Hino.

Solvency margins, the excess of the value of assets over the amount of liabilities available to cover future insurance claims and investment risks, have been falling due to bad loans, tumbling equity and property prices, and a strengthening yen.

"The deep descent of the stock market has substantially eroded the capital base of all Japanese life insurers," said Thomas Keller, managing director of Moody's in Tokyo. "Asset/liability management may prove to be the Achilles heel for the industry."

The gravity of the situation was highlighted over the weekend when it emerged that two second-tier life assurers would be linking up.

Tokyo-based Taiyo Mutual and Osaka-based Daido Mutual plan to merge their asset management, system development and leasing subsidiaries, and jointly develop insurance products. The combined assets of the two companies, around Y12,350bn at the end of September, would make them the fifth largest life assurer in Japan.

"It's a pretty good move," said Robert Garone, at Dresdner Kleinwort Benson. "These are the two strongest, best-capitalised companies in the second-tier range, coming together. With Taiyo's strength in the individual [retail] business and Daido's strength in small corporation sales, it's a good match. Economies of scale are going to become increasingly important in this sector."

Taiyo and Daido, ranked eighth and ninth in terms of assets, have high solvency margins of 873 per cent and 1,017 per cent respectively.

Holderbank in Chinese buy

By Sophy Buckley

Holderbank, the biggest cement group, has agreed to acquire 23.4 per cent stake in Huaxin Cement, one of China's top three cement groups, for about $30m in its latest expansion in south-east Asia.

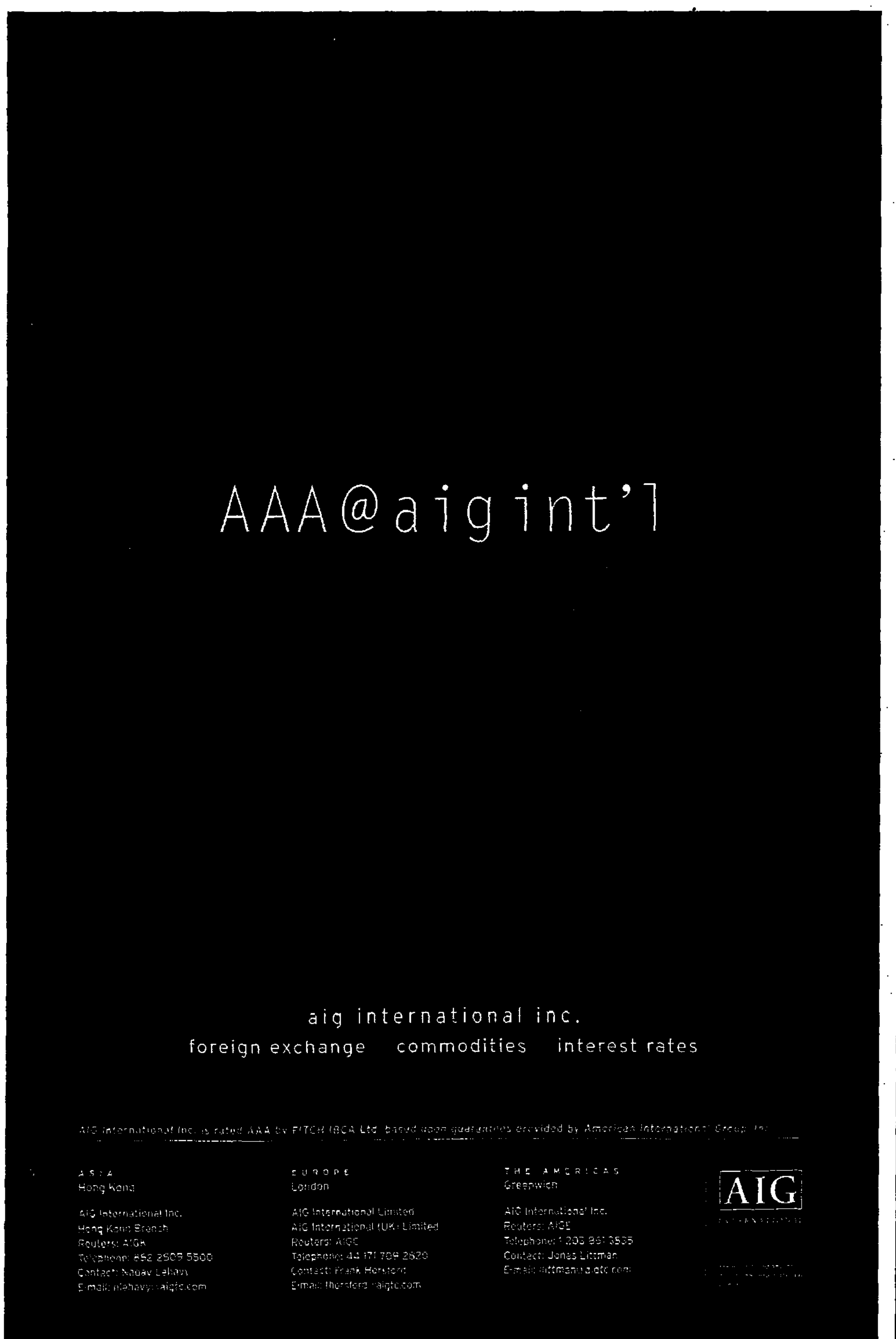
Huaxin, listed in Shanghai, has an annual cement capacity of 1.7m tonnes, but this is set to double this spring to 3.5m tonnes as a new plant comes on stream to meet buoyant demand for high-quality product, according to Holderbank.

The company's plant is situated in Huangshi City, in Hubei Province, a key economic region in Central China. It also has a stake in a plant in Nantong.

The move follows the purchase this month by the Swiss group of a controlling interest in Ruhunu, a Sri Lankan cement company with an annual capacity of 500,000 tonnes, reinforcing its market leadership in the country.

Holderbank said that in contrast to other Asian countries, demand for cement in Sri Lanka rose about 7 per cent in 1998 to about 2.1m tonnes and was set to rise further this year.

Holderbank has been taking advantage of the Asian financial crisis to build its presence in the region.



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TELECOMMUNICATIONS €10.8bn MAY BE SET ASIDE FOR ACQUISITIONS OR MERGERS AS SALES INCREASE IS MODEST

Deutsche Telekom to raise big war chest

By Frederick Studemann in Bonn

Deutsche Telekom, unveiling mixed preliminary results for 1998, yesterday said it was considering raising up to €10.8bn ($12.5bn) this year to arm itself for possible acquisitions or mergers in the telecommunications sector.

Although Deutsche Telekom said it had not yet taken a firm decision on the matter, analysts yesterday said this was a clear signal that this year would see a stock market flotation, the second since partial privatisation in 1996.

The company said that it was "looking into its future capital requirements" and exercising its right to sell 286.3m shares "in view of potential investment opportunities on the rapidly developing international telecommunications market".

Deutsche Telekom, continental Europe's biggest telecommunications company, has been a noticeable absentee in the latest round of merger and takeover activity in the sector. But Ron Sommer, chief executive, said in newspaper interviews last month that Deutsche Telekom did not rule out such mergers and acquisitions if they were necessary for the company to become a global force.

Since market liberalisation last year, Deutsche Telekom has come under increasing pressure in Germany, losing an estimated 30 per cent of the peak-time long distance share of the market to competitors.

The effects of competition were felt in the preliminary 1998 figures, which showed a modest 1.5 per cent increase in net sales to DM68.7bn (€35.1bn, $40.7bn). Post-tax profits rose 27 per cent to DM4.2bn but the company said this was largely due to the halving of losses in deficit-ridden areas such as directory inquiry services, equipment sales and international investments.

The company said that price cuts introduced following liberalisation had knocked DM2bn off revenues.

Analysts expect further pressure on sales in 1999 following a further wave of cuts, which in some cases reduced the costs of calls by up to 60 per cent, at the start of the year.

Gross sales rose 3 per cent to DM69.7bn, though this figure includes some DM1bn in revenue attributable to competitors who use Deutsche Telekom's networks and billing facilities.

The company said it had reduced its debt by 10 per cent to DM78.6bn, a figure which includes Matev, its Hungarian affiliate. Net financial liabilities stood at DM65bn. The number of employees fell 6 per cent to 179,500.

Ron Sommer: has not ruled out buys or mergers

CHEMICALS GERMAN GROUP CONFIRMS PROFIT WARNING

Hoechst to take bulk of tie-up cost this year

By Uta Harnischfeger in Frankfurt

Hoechst, the German pharmaceuticals and chemicals group that is to merge with Rhône Poulenc of France, said it plans to charge the bulk of the DM3.3bn (€1.69bn, $1.96bn) cash restructuring costs for the merger this year, with the rest taking place in the year 2000.

Klaus-Jürgen Schmieder, Hoechst's chief financial officer, was giving details of how the company would handle restructuring costs since the merger was announced late last year.

He also confirmed an earlier profit warning by Jürgen Dormann, chief executive, who said in October that Hoechst's 1998 operating profit will be lower than last year's. "It is going to happen like we already estimated – earnings per share will be lower," Mr Schmieder said. In 1997 Hoechst's earnings per share were DM3.10, up from DM2.75 in 1996.

He said preparations for the first of the two merger stages with Rhône-Poulenc were going smoothly.

The two companies will continue to co-exist under the same four-member management board until they are merged.

Though it is has been billed a merger of equals, Mr Schmieder stressed that the two partners will re-assess the value of each others' contributions to Aventis once it becomes clear what they earned from their respective divestments.

Hoechst yesterday said it was possible that its shareholders may own closer to 60 per cent of Aventis once Hoechst has sold Messer Griesheim, its industrial gases company, Wacker Chemicals, HR Vet and its 45 per cent stake in Clariant, the speciality chemicals arm.

When the deal was announced, the companies said they would own equal holdings in the merged company's shares but that this could be revised.

Rhône-Poulenc, on the other hand, will sell its 68 per cent stake in Rhodia, the speciality chemicals concern. "It doesn't have to necessarily result in a 50-50 ownership," Mr Schmieder stressed.

Mr Schmieder declined to comment on recent rumours that Hoechst is close to finalising the disposal of Messer. On Monday, talk was circulating in the markets that Hoechst was planning to sell Messer to France's Air Liquide. Messer's value is estimated at DM4bn.

UPC takes control of Telekabel venture

By Jeremy Gray in Amsterdam

United Pan Communications (UPC), Europe's biggest provider of private cable television services, and Dutch utility Nuon yesterday sealed a Fl 550m (€249m, $289m) deal giving UPC full control of United Telekabel Holding, the partners' cable joint venture.

Tob Swelheim, Nuon chairman, said that the sale of its 49 per cent stake in Telekabel, which the utility bought from local authorities in 1995, would bring a book profit of about Fl 275m. Nuon, which is publicly owned, is in merger talks with Dutch energy companies ENW, EWR and Gamog to form the country's largest power and water concern as the sector is opened to market forces. "Market liberalisation means that we will focus on our core business," Mr Swelheim said.

Telekabel, serving around 1.4m households, is the Netherlands' leading provider of broadband multimedia and communications services. UPC, which has 3.4m cable subscribers throughout Europe, has said it also wants to buy out MediaOne International's share of A2000, the joint venture which has a cable monopoly in Amsterdam. Telekabel owns 50 per cent of A2000.

Tim Bryan, UPC president, said the company would partly finance the purchase in equity after its flotation early next month on the Amsterdam and Nasdaq exchanges, which he estimates will raise between Fl 1.2bn and Fl 1.3bn. He added that the structure of the financing will depend on the outcome of the share offering, but that "at least half" of the purchase price would be paid in cash.

The deal will give Nuon a stake in UPC of "lower than 10 per cent", Mr Swelheim said. Nuon has agreed to keep its interest in UPC for at least six months, while UPC has an option to buy back the shares during the same period. Despite unwinding the joint venture, the two companies would retain close links, he added.

Mr Swelheim said the cable holdings of Nuon's eventual merger partners, which represent some 200,000 subscribers, might also be sold to the Amsterdam-based UPC.

Olivetti and Mannesmann raise Ccil bid

By Paul Betts in Milan

Olivetti of Italy and Germany's Mannesmann yesterday increased their cash bid for Cellular Communications International (Ccil) of the US by nearly 22 per cent, to $80 a share, in a renewed effort to strengthen their grip on Omnitel, the fast-growing Italian cellular telephone company.

If successful, the revised bid would represent one of the largest takeovers by an Italian company in the US, at a total of $1.85bn including about $100m of Ccil debt.

Ccil's principal asset is a 10.3 per cent stake in Omnitel. The Italian and German companies last month launched a $65¾ a share bid for the US group, but it failed after only 10.6 per cent of shares were tendered.

Analysts said the higher bid, for which Goldman Sachs and Lehman Brothers are acting as dealer managers, showed Olivetti and Mannesmann were anxious to consolidate their hold on Omnitel.

It is a time of hectic merger and acquisition activity in the mobile phone sector following Vodafone's $62bn acquisition of AirTouch. The US mobile company has a 15.5 per cent stake in Omnitel.

By taking over Ccil, Olivetti and Mannesmann would lift their joint stake in Omnitel to 46.9 per cent.

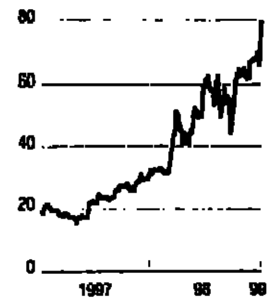
Although the original offer was accepted by Ccil's management, minority shareholders sued to block the deal, claiming that the price was too low and did not reflect the true value of the company and its Omnitel stake.

Ccil shares, which are listed on Nasdaq, had traded consistently higher than the original $65¾ offer price. In early trading yesterday the shares rose $12¾, or more than 18 per cent, to $79¾.

Under their revised offer, Olivetti and Mannesmann have extended the option granted to Bell Atlantic, the US telecommunications group, to acquire in a subsequent stage one-third of Ccil's 10.3 per cent stake in Omnitel at the new bid price of $80 a share.

This would give Bell Atlantic, which already owns 19.7 per cent of Omnitel, an additional 3.4 per cent stake. The US group, which lost out to Vodafone in the contest for AirTouch, is expected to take up the option.

Cellular Communications
Share price ($)



Source: Datastream/ICV

NEWS DIGEST

CARMAKING

Renault to lift capital at heavy truck division

Renault, the French carmaker, is increasing by FFr3bn (€457m, $530m) the capital of its Renault VI heavy truck unit in order to strengthen its financial structure and "provide it with the means of pursuing its policy of profitable growth". The move comes as Renault, which is partly state-owned, is being linked with Scania, the Swedish truck manufacturer, and Nissan, the Japanese automotive group. Renault has not commented on the Scania speculation, but confirmed it was talking to potential partners, including Nissan, as part of its strategy of increasing its presence in Asia.

Renault said it wanted to help speed the development and growth of Renault VI, based on the unit's recovery, which would result in a significant increase in operating income for 1998. **David Owen, Paris**

● **Goldman Sachs** has emerged as the adviser chosen by Fiat to study a possible bid by the Italian automotive group for Sweden's Volvo, which is being advised by J. P. Morgan. However, Roberto Testore, chief executive of Fiat Auto, the group's main car division, said yesterday the company had "nothing new to say" on its intentions. **Paul Betts, Milan**

SPAIN

Suitor banks raise dividends

Banco Santander and BCH, the banking groups involved in Spain's largest merger plan, yesterday announced sharp increases in their annual dividends ahead of 1998 results expected next week. Santander raised its adjusted total payment by 21 per cent to Pta62.67 (€0.38, $0.44), while BCH lifted its proposed full-year dividend 36 per cent to Pta29.5.

Analysts predict increases in attributable net profits of about 25 per cent for the Santander group from the previous year's Pta111bn, and 50 per cent for BCH from 1997's Pta43bn. The two banks have set a target of 25 per cent annual profit increases this year and next at their combined BSCH venture. Santander shares rose a further 2.7 per cent to €17.28 in Madrid yesterday after rising almost 15 per cent on Monday following the merger announcemənt. **David White, Madrid**

HOLIDAY OPERATORS

French group returns to profit

Shares in Club Méditerranée rose 5.9 per cent to €77.95 yesterday after the the French holiday village operator announced a return to profit and reaffirmed its confidence in meeting ambitious performance targets. Club Med achieved net profits of FFr171m (€26.1m, $30.2m) last year – the first in its three-year restructuring programme – after sustaining a FFr1.29bn loss in 1997. Sales were FFr8.38bn, up 1.9 per cent from 1997. Philippe Bourguignon, chairman, said profits would grow again this year and the group should meet its target of FFr700m-FFr750m in operating profits in 2000, almost double last year's FFr386m. He attributed last year's recovery to strength in Europe, which offset weakness in Asia.
Samer Iskandar, Paris

NORWAY

Finansbanken issues warning

Finansbanken, Norway's second-largest private bank, issued a profit warning for its fourth quarter, ahead of its board decision tomorrow regarding a NKr1.6bn ($215m) takeover by Storebrand, Norway's leading insurer. The bank blamed an evaluation by Fearnley, a Norwegian ship broker, of its shipping lending portfolio, which revealed a need for heavier loss provisions. However, both Finansbanken and Storebrand said they did not expect the warning to affect the planned takeover. **Valeria Sköld, Oslo**

Shake-up talk lifts French banks' shares

By Samer Iskandar in Paris and Neil Buckley in Brussels

French banking shares yesterday extended their gains earlier in the week as speculation intensified that a long-awaited rationalisation of the sector was imminent.

Shares in the main banks closed up to 4 per cent higher in a falling stock market, on expectations of significant ownership changes. Mutuelles du Mans (MMA), a mutually owned insurance company, said it intended to sell its stake in Crédit Commercial de France, one of the country's 10 largest banks.

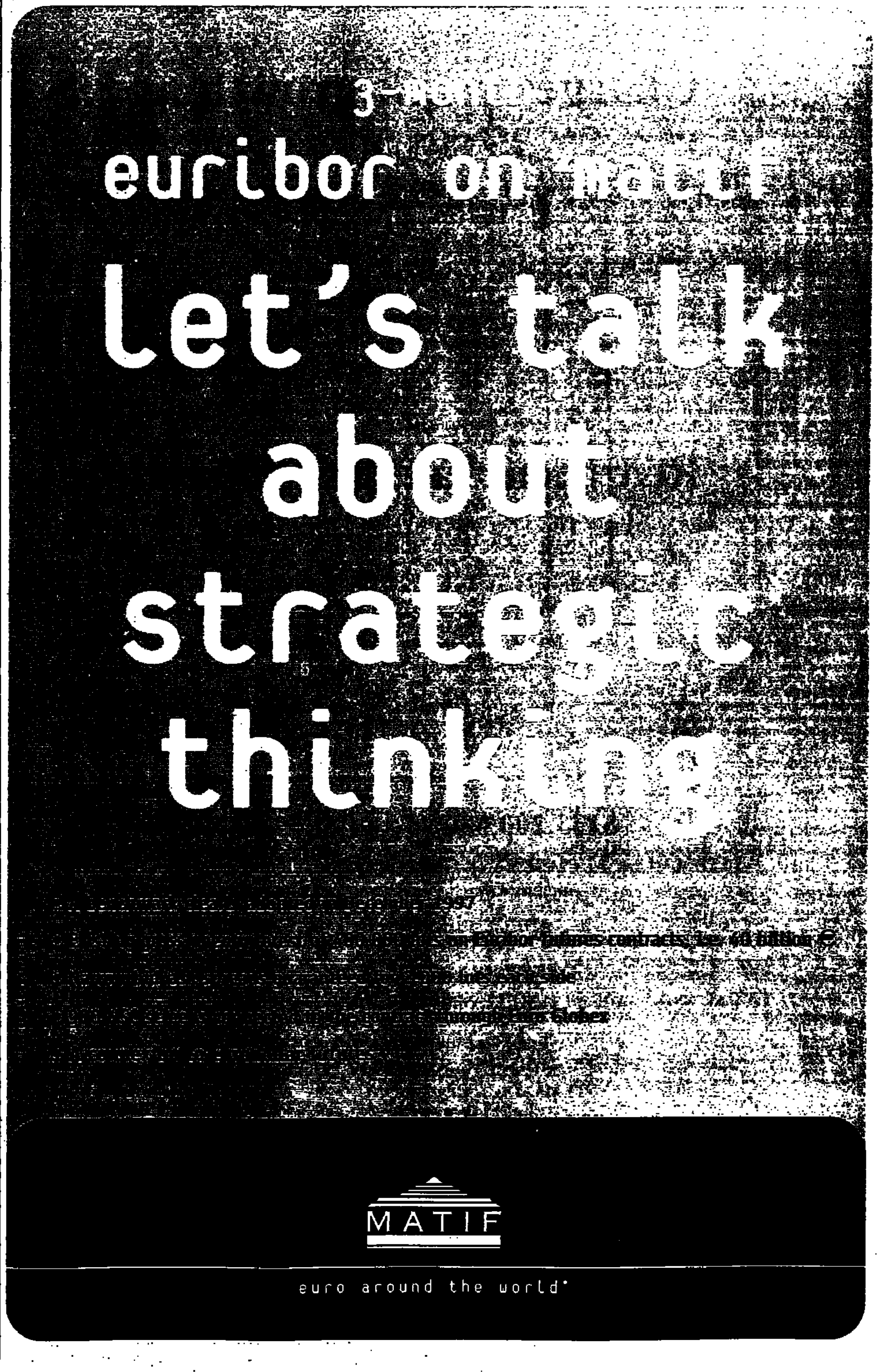
Speculation also spread to Banque Nationale de Paris and Société Générale, as analysts expected France's two largest listed banks to react to last week's merger between Spain's BCH and Banco Santander. BNP and SocGen closed at €77.15 and €155 respectively, up about 12 per cent since the beginning of the week.

MMA, CCF's second largest shareholder, said it had hired Lehman Brothers, the US investment bank, to examine "several unsolicited offers to buy [MMA's] 7.8 per cent holding in CCF".

With FFr415bn (€63.3bn, $73.4bn) of assets at the end of June and a market capitalisation of slightly under €6bn ($6.96bn) – compared with more than €15bn for BNP and SocGen – CCF is seen as an attractive takeover target. Last month, CCF shares rose almost 10 per cent in two days after ING, the Dutch banking and insurance group, raised its stake from 2.25 per cent to 5.9 per cent.

Other potential suitors include KBC, the Belgian bank resulting from the recent merger of Cera Bank, Kredietbank and the insurer ABB. KBC, which has a small, undisclosed stake in CCF, yesterday said it would be interested in acquiring MMA's stake "if it was at a sufficiently attractive price".

CCF is France's most profitable bank, with after-tax return on equity of 13 per cent in the first half of last year. Since its privatisation in 1987, it has concentrated its commercial banking activities on the higher end of the retail market, and has established itself as a niche operator in investment banking.



SECURITIES HOUSES US GROUPS PRODUCE A MIXED SET OF RESULTS

Merrill beats fourth-quarter forecasts

By Tracy Corrigan in New York

US investment bank and *brokerage earnings in the* fourth quarter held some surprises, as the financial market turmoil of September and October – followed by a market rebound in November and December – produced mixed and sometimes unpredictable results.

Merrill Lynch shares fell 2 per cent yesterday, despite beating fourth-quarter earnings estimates, on concerns about its poor performance in fixed income and larger-than-expected losses on its Japanese brokerage venture.

Merrill's earnings of $359m were 23 per cent below last year's fourth quarter, despite the market rebound *just a few weeks into the* quarter.

Meanwhile, J.P. Morgan reported net operating earnings of $175m, up from $122m in the third quarter, despite having warned the market on December 9 that fourth-quarter operating earnings would be lower than in the third quarter.

Operating earnings per share of 86 cents were consequently dramatically higher than analysts' estimates of 38 cents. After an after-tax charge of $86m, J.P. Morgan's earnings were $89m, or 42 cents a share, apparently the result of a sharp upturn in fixed income and proprietary trading in December.

Many analysts had revised their fourth-quarter forecasts for other firms downwards after the J.P. Morgan warning, but in fact most firms have surprised the market with better-than-expected, and in some cases record, fourth-quarter results.

Merrill's earnings of 86 cents a share were above estimates of 64 cents.

Sallie Krawcheck, securities industry analyst at Sanford C. Bernstein, said that although Merrill had reduced the size of its balance sheet in the fourth quarter, its performance was weaker than many peers.

Furthermore, its losses for *the year on its Japanese bro*kerage network, acquired from the now defunct Yamaichi Securities, had grown from an initial estimate of $130m to about $230m, and there was no clear indication of when revenues might improve.

Firms focused on retail brokerage rather than investment banking continued to show greater immunity to market fluctuations.

PaineWebber earned net income of $100.4m for the fourth quarter, down from $108.7m, but reported record earnings for the year.

Donald Marron, chairman and chief executive officer, said the firm planned to *offer some clients trading* services on the internet by the end of the second quarter. The number of clients accessing statements on the internet more than doubled last year to 70,000.

Mr Marron said the company had not yet decided what form the service would take or whether it would be offered to new clients but added: "We believe advice will be the central theme."

Full service brokers such as PaineWebber and Merrill are looking for ways to respond to the rapid growth of discount broking on the internet which offers cheap, advice-free trading.

Charles Schwab, which also reported earnings today, had 2.2m active online accounts with $174bn in assets as of the end of 1998.

In the fourth quarter, internet customers accounted for 61 per cent of Schwab's total trades, up from 41 per cent a year ago. Schwab reported record net income of $106m, up from $63m a year ago, on record revenues of $789m.

Bear Stearns, which ends its fiscal year at the end of June, reported second-quarter earnings of $135.9m, down 15.2 per cent.

Sotheby's to launch internet auctions

By John Labate in New York

In the latest sign of the internet's potential to reshape and expand the business of auctioning, Sotheby's Holdings, the 255-year-old international auction house, said it would invest $25m in the launch of an internet-based auction business.

The company, which conducts more than 500 auctions a year with operations in 46 countries, said it would create an auction "engine" through its internet site, sothebys.com, to bring together buyers and dealers. The venture is to be headed by Susan Solomon, formerly of Sony Worldwide Networks and should begin operating by summer.

"This distribution channel enables us to handle a new area of the market," said Diana Brooks, group president and chief executive. "It could be a very major part of Sotheby's down the line."

Internet-based auction companies such as eBay, uBid and others, are among the hottest stocks on Wall Street and their recent success clearly led the way for Sotheby's online strategy. But Sotheby's believes it can outrun its rivals by addressing internet fraud, the leading issue of the sector and a growing area of concern in online commerce.

Sotheby's said it would stand by the authenticity of all goods on its site, and would make goods available through dealers with whom *the company has long-stand*ing relationships. It will also verify the authenticity of the online items when an auction dealer is not involved.

Although most famous for its million-dollar auctions of artworks, 80 per cent of the company's auction lots are sold for less than $5,000. One of the first online auctions to be made available through sothebys.com will be for baseball memorabilia.

Analysts were positive about Sotheby's new strategy.

"It makes [the company] more accessible to a different kind of customer that either wouldn't go into the auction house or can't get there," said Karen Lynch, analyst at rating agency Fitch IBCA.

Investors agreed. Sotheby's shares climbed 14 per cent, or $4½, by midday to $36⅝.

Portals seek survival on a crowded web

By Roger Taylor and Louise Kehoe in San Francisco

The one thing most people in the internet business agree on is that there are too many companies treading on each other's toes. In particular, the internet portals – sites *which provide a range of ser*vices including search, e-mail, chat and news – are finding the marketing battle increasingly tough.

Most analysts believe there is room for only a handful of big portal sites in *the market and the battle to* be in the top rank is becoming increasingly fierce. Excite, which has always lived in the shadow of its much bigger neighbour, Yahoo!, yesterday admitted it needed help and agreed to a takeover by @Home, the internet service provider.

The link-up provides a relatively new approach. Until now most of the interest in portals has come from traditional media businesses buying a foothold in the new medium. Last year saw two portals link up with media companies when Disney took a stake in Infoseek and NBC took a stake in Snap.

However, internet valua*tions have now reached such* astronomical proportions that few non-internet companies can afford to buy into the sector. As a result, Chip Vetter, managing director at BancBoston Robertson Stephens, the investment bank, *believes the most likely* deals now are within the sector, whether it be internet service providers linking with portal companies, or internet retailers and portals joining forces to share marketing expenses.

*While competitive pres*sures are growing, there is little agreement on who the losers will be. The orthodox view has it that the leaders on the internet – such as Yahoo!, America Online, Microsoft, Amazon.com and E*Trade – will continue to grow and grab ever higher market share. This will allow portals to capture an ever *larger share of the* growing spend on internet advertising.

Thomas Jermoluk (left), @Home chief, and George Bell, head of Excite, meet to announce the deal AP

However, a report this week from Forrester, the industry research group, disagrees. The report compares the recent record-breaking $90m advertising deal between FirstUSA, the credit-card company, and Microsoft's MSN internet service *with the price of advertising* on smaller, more focused sites and concludes that the latter offers better value.

The economics of the internet are still evolving. The top 10 portals are seen by almost all internet users, but account for only around 15 per cent of total page views. The big sums paid today for stakes in portals *assumes they will continue* to increase their audiences and hold their attention for longer. That is yet to be proven.

BANKING SHIFT CONTINUES TOWARDS FEE-BASED INCOME

Charges mask growth at US banks

By John Authers in New York

Most of the largest US commercial banks showed a *pattern of continued growth* at the end of last year, despite being preoccupied with integrating mergers.

Many also continued a shift from traditional interest income towards fee-based income – activities such as *fund management and credit* cards.

Wells Fargo, formed by last year's merger of Norwest with Wells Fargo, *announced a net loss for the* quarter of $194m, down sharply on the $650m profit the two banks had made in the equivalent quarter of 1997. But this was largely due to charges of $1.2bn, mostly caused by the merger.

These included $375m for personnel expenses, $250m in property expenses, and $210m to satisfy commitments to various community programmes which Wells Fargo made at the time of the merger.

The company also suffered a loan-loss provision of $320m to cover problems at the Caribbean lending operation of the former Norwest. *The company said this had* been harmed by deteriorating economic conditions in Puerto Rico, compounded by last year's hurricane.

With charges excluded, Wells Fargo increased its return on equity from 13.12 per cent in the fourth *quarter of 1997 to 14.32 per* cent. Its banking earnings rose 18 per cent to $2.28bn for the full year, while Norwest Mortgage Banking, the largest US mortgage bank, raised earnings by 44 per cent to $217m for the *year.*

Bank One, the result of the merger of Banc One with First Chicago NBD, saw its fourth-quarter earnings rise 17 per cent to $1.04bn, before charges. However the charges, mostly related to the merger, were $1.15bn before tax, reducing net income to $226m, well down on the $890m recorded in the fourth quarter of 1997.

The bank increased income from both lending activities, with net interest income growing 13 per cent to $3.68bn in the fourth quarter, mainly because of an increase in the interest margin. Fee-based businesses saw an 11 per cent growth in *revenue.*

Several other banks continued to focus more strongly on fee-based income. Bank of New York, which has moved for several years towards businesses such as global custody, securities processing and issuing American Depositary Receipts, saw a slight fall in net interest income, which was $1.7bn for the year, down from $1.89bn the year before. This was mainly because it had quit the credit-card business, selling its portfolio to Chase in late 1997.

Non-interest income for the year grew from $2.13bn to $2.28bn, with securities *processing income rising* from $790m to $1.0bn.

The results did not surprise the market. By mid-session, Bank One had dropped 2.95 per cent, off $1⅝ at $53⅝, while Wells Fargo was barely changed, gaining $1/16 at $36¼. Bank of New York slipped $1⅞ to $116¼.

Reit opens tax door to services

By Norma Cohen, Property Correspondent

Equity Office Properties Trust, the largest owner of office buildings in the US, said it had received permission from the tax authorities to offer advanced telecommunications services to tenants without jeopardising its tax-advantaged status.

Analysts said the decision could have significant advantages for real estate investment trusts (reits) whose efforts to offer bolt-on services to tenants have been frustrated by tax rules.

The so-called Private Letter Ruling from the Internal Revenue Service is the first of its kind and clearly allows reits to earn profits from services other than accommodation. Reits are allowed to escape corporation tax under certain conditions, but income from non-property services is taxable.

Although the ruling applies only to Equity Office's provision of advanced telecoms services, analysts said that other companies were certain to follow quickly. "It's a foot in the door for a whole host of services," said Jon Fosheim, principal at Green Street Advisors, a California-based research firm specialising in property shares. "A lot of reit directors want to expand the definition of what it means to be a landlord."

Property owners, facing fierce competition, are increasingly offering a package of services to attract and keep tenants, although tax rules limit their ability to profit from these services.

David Sherman of Salomon Smith Barney said the tax rules were drafted at a time when reits were simply passive owners of, rather than managers of, property. "It's great to get rid of some tax rules which didn't make any sense from shareholders' point of view," he said.

Equity Office, owner of 286 properties across the US, said it intended to seek new business opportunities as a result of the ruling, *as well* as immediately put in place the existing, non-exclusive contracts it had agreed with several telecoms providers.

Copper mine to shut as low prices lead to loss

By Scott Morrison in Toronto

Rising world inventories and low prices have prompted Cominco, the Canadian metals producer, to announce the closure of one of the world's largest copper mines in May.

Cominco and three Canadian partners said they would shut down the Highland Valley copper mine in British Columbia, as it had suffered an C$8m (US$5.2m) fourth-quarter loss due to the slump in copper prices. *Increased losses in 1999* were projected for the mine, which produced about 170,000lb of copper in concentrates in 1998, about 1.5 per cent of world supply.

The companies said that cost savings over the past two years had not sufficiently reduced costs. HVC is regarded as one of North America's highest-cost copper producers, with cash cost averaging about 68 cents a pound.

However, the mine's importance to the BC economy means that a negotiated settlement may yet keep the mine open. The mine's owners *said they would work* with utilities, suppliers, governments and employees in an effort to produce additional cost savings.

One mining analyst said the shut-down would devastate the regional economy and he predicted the provincial government would make a strong effort to preserve jobs. Provincial officials have a history *of bailing out* high-cost operations, although it is not clear how much the cash-strapped government could do in this case.

The company is required by law to give 16 weeks' notice of a *shut-down.* Terry Marsten, a mine official, said the timing of the announcement was not related to the negotiations with employees.

HVC is 50 per cent owned by Cominco. Mining groups Rio Algom, Teck and Highmont *own the remaining* interests.

Commodities, Page 26

NEWS DIGEST

CONTROL TECHNOLOGY

Honeywell shares slide on warning on revenue growth

Shares in Honeywell slid more than 4 per cent in early New York trading yesterday after the US control technologies company warned that economic *conditions* were expected to limit revenue growth in 1999. Honeywell also said it was not *satisfied* with the revenue growth it reported in the second half of 1998. "We are reallocating *resources* and focusing management attention on elements of the Honeywell portfolio with *higher near-term* growth *prospects,*" said Michael Bonsignore, chairman.

Those units *included its Hi-Spec* Solutions, PlantScape hybrid automation system, airport systems, building security *and a broad range* of services from its installed base, the company said. On Wall Street, Honeywell *shares had* fallen $3 9/16 to $70⅞ by lunchtime.

Honeywell *earlier reported* fourth-quarter net income of $204.5m, or $1.61 a share, up from $178.1m, or $1.38, in the same period a year ago. Revenues were $2.35bn against $2.33bn.

Revenues for the space and aviation control segment were *strong and offset* declines in the industrial control and home and building control units, Honeywell said. Orders were down 5 per cent. For the year, Honeywell reported net income was $572m, *or* $4.48 a share, up from $471m, or $3.65 cents. Revenues rose to $8.4bn *from* $8bn. **Agencies**

AIRLINES

Delta earnings slow

Delta Airlines, the third biggest US carrier, yesterday opened the reporting season for US carriers by announcing a sharp slowdown in earnings growth for the quarter to *December. Net profits* were $191m after preferred stock dividends, only 2 per cent ahead of the $187m reported a year earlier. Earnings per share, boosted by stock repurchases, were 8 per cent ahead at $1.29, *beating analysts'* expectations of $1.26.

Other big US airlines are also expected to report weak profits over the next few days, ending a period of rapid growth. The industry has been hit by the downturn in *Asian markets and cuts in business* travel by US companies fearing an economic downturn.

Delta's figures showed the airline continued to benefit from low oil prices in the latest quarter, with aircraft fuel costs falling from $409m to $351m. Travel agents' commissions were also down, falling from $235m to $208m.

Separately, **Northwest Airlines** reported heavy fourth-quarter losses because of cancellations and other costs arising from the 15-day pilots' strike *in the preceeding* quarter. Net losses were $181.5m, compared with net profits of $105.1m, a year earlier. The latest figure included a $66m pre-tax charge for the retirement of its seven oldest Boeing 747 aircraft. **Richard Tomkins, New York**

FOODSTUFFS

Tyson may sell divisions

Tyson, the world's largest producer and processor of poultry-based products which has been battered by the recent slump in Asian and Russian demand, is to explore the possible sale of its pork group and seafood division. It said it was "in the early stages of this process", but that any offers received would "evaluated carefully". The move follows *a number of restructuring initiatives by the Arkan*sas-based group, which caused it to take a $196m charge in the fourth quarter of 1997/8. As part of that programme, Tyson talked of rationalising its seafood assets, mainly fishing vessels, and opened up the possibility that it would *dispose of the business.*

Cargill, the privately-owned agribusiness and industrial group, announced profits for the six months to end-November of $587m, against last time's $124m. The latest results included both a gain from the sale of the international *seeds business to Monsanto and a charge related to* financial trading losses in Russia and other emerging markets. It said some of its commodity trading and food-processing businesses performed well but others continued to suffer from the economic slowdown. **Nikki Tait, Chicago**

Monsanto in deal with Dow AgroSciences

By Nikki Tait in Chicago

Monsanto, the US life sciences group, has reached agreement to supply Dow AgroSciences, a unit of Dow Chemical, with its glyphosate herbicide – one of the key elements of its top-selling Roundup herbicide.

The global "multi-year" agreement is the fifth such arrangement struck by Monsanto over six months.

Glyphosate comes out of *patent* in the US in late-2000, although Monsanto still has patents over aspects of the Roundup fomulation, and the deals are part of a strategy to buttress Roundup against generic competition.

As part of the deal, Dow will be able to use its own brand of glyphosate herbicide with Monsanto's Roundup Ready soyabeans and cotton from 2000 onwards, and Roundup Ready corn from the beginning of 2001. The Roundup Ready seeds are genetically engineered to tolerate the *herbicide while surrounding* weeds are killed off.

$133,200,000

INTELLIRISK MANAGEMENT CORPORATION
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New York, NY 10017
(212) 599-6300

DEUTSCHE BETEILIGUNGS AG
Emil-von-Behring-Straße 2
60439 Frankfurt am Main
(49 69) 95787-100

December 18, 1998

New York, Frankfurt/Main

CONTRACTS & TENDERS

REPUBLIC OF UZBEKISTAN

The International Tender
for purchase of 46.5% of the shares of
Almalyk Mining Metallurgical Complex

ADDITION

Taking into account the requests of the bidders for purchase of 46.5% of the shares of Almalyk Mining Metallurgical Complex in the Republic of Uzbekistan the Tender Commission declares that the bidders are requested to submit their demands before **March 1, 1999** and following Tender Proposals till **May 1, 1999**.

The Tender Commission

The text of the Notice of the International Tender for purchase of 46.5% of the shares of Almalyk Mining Metallurgical Complex was published on December 15, 1998 and in the following:
Internet www.gov.uz/SPC
Reuters email@dmgmos.msk.ru

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Zergo strikes deals with PwC and Intel

By Susanna Voyle

Shares in Zergo, the UK Aim-traded internet security specialist traded, jumped more than 23 per cent yesterday, as UK investors hungry for technology hot-stocks digested news of an alliance and a licensing deal.

Investor appetite for the IT sector was underlined by a near trebling the value of shares in internet services company VirtualInternet on their first day of trading and continued gains at On-Line, the internet games company.

Zergo – which specialises in encryption and digital signatures to secure electronic commerce – announced deals with PwC, the accountancy group, and Intel, the US semiconductor giant Intel. Zergo's shares closed up 162½p at 702½p.

Analysts said the deals helped solidify Zergo's position as number two in the global encryption market after US group Entrust.

The specialist market in which Zergo operates – known as public key infrastructure – is expected to prosper, as it is seen as an essential building block for the refinement of the electronic commerce market.

The products, which act like electronic identity cards, are expected to build public confidence in using e-commerce and corporate readiness to rely more heavily on the internet for the exchange of documents.

The PKI market is expected to grow from $143m last year to at least $1.5bn a year by 2002, with some estimates putting the figure as high as $2bn.

Matthew Bowcock, a Zergo director, said that the alliance with PwC – which will use Zergo products in its security network consultancy – was important for short-term growth, while a world-wide licensing agreement with Intel would bring significant long-term opportunities.

The group – which plans to change its name to Baltimore following the recent acquisition of Irish group Baltimore Technologies – said consolidation in the global encryption market was likely to continue and it was always seeking acquisition opportunities.

"We have always stated that we want once we were a leader in this field, we wanted to be behind the wheel as the market consolidated, not under it," said Mr Bowcock.

Analysts said the main challenge for Zergo was growth in the US – which represents 50 per cent of the world market. It is already market leader in Europe.

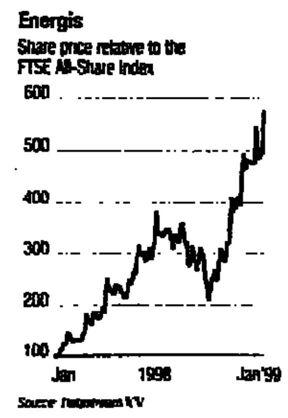
They said that UK investors were short of shares in the kind of technology companies that have proved so popular on the US stock market. Continued good news from Zergo, which was not rated as highly as its US counterparts, was likely to continue to drive the shares higher.

"There is a real appetite for technology hot-stocks now, even though we have belittled those in the US and scoffed at the internet-related rises," said George O'Conner at Granville, the stockbroker.

COMMENT

Energis

The iron laws of supply and demand seem to go all bendy when it comes to information technology and telecommunications stocks. Lack of liquidity is one reason cited for crazy internet valuations. But throw a big slug of shares on to the market and share prices also rise. National Grid's timing in selling roughly a third of its holding in Energis is impeccable. The Vodafone/AirTouch deal has heightened the telecoms frenzy. National Grid's sale does not turn Energis into an overnight bid target – it will still hold nearly 50 per cent of the voting equity. But it hastens the Grid's exit.



The big news is that Energis will be eligible for the FTSE 100, which means index-tracking funds will need to scramble aboard. With market conditions thus propitious, investment bankers have to find something extra to justify big fees. This they have done in dreaming up a hybrid instrument, part equity, part bond. This cleverly allows National Grid to defer some capital gains tax, while sharing in some of the upside should Energis shares continue to power ahead.

For plain vanilla equity investors, who prefer to leave option pricing models to Nobel laureates, the debate is the old one. Energis is trading on a heady forward sales multiple of roughly 10. True, its broadband network is exciting: it is ideal for transmitting huge amounts of data. At some point, this will become more of a commodity business, but not imminently.

Body Shop

If you must announce disappointing Christmas trading, it helps if you come in the wake of the investor bloodbath of Marks and Spencer's profit warning. But tiny Body Shop cannot hide behind M&S's skirts. Once again, it misjudged the US market. Londoners may go for the chrome look, but New Yorkers wanted snowballs and tinsel. It is too early to blame this on the new joint venture set up to manage the US business. But investors should demand early proof that the US is turning round, and that the disappointing UK numbers are just a blip. There are tougher times ahead, as squeezing out surplus stock from the system is denting wholesale sales. Meanwhile stock turns still have a long way to go before this company can claim to be a reformed, lean manufacturer/retailer.

National Grid sale to raise £1bn

By Andrew Taylor, Utilities Correspondent

National Grid, the UK power transmission group, plans to raise more than £1bn ($1.65bn) by selling a third of its 74.3 per cent stake in Energis, the telecommunications company.

The sale will bring National Grid's holding just below 50 per cent. The power company is also understood to be close to negotiating a second large US electricity acquisition in New England.

Last month, it announced the purchase of Massachusetts-based New England Electric System (NEES) in a deal worth $4.6bn.

Stephen Box, National Grid finance director, said a further purchase could be worth about £500m, but terms had still to be agreed.

David Jones, National Grid chief executive, admitted that the company was cashing in on investors' appetite for telecommunications stocks by selling a large chunk of its Energis stake.

Investors, under a book-building exercise to be run by HSBC Investment Bank, will be offered ordinary shares or exchangeable bonds, mandatorily convertible to Energis shares after four years.

The bonds, designed to attract US and continental European investors, are expected to carry a coupon of about 5 or 6 per cent. National Grid also will convert its preference shares in Energis to ordinary shares. This would leave it with a stake of 45-49 per cent, depending on final bond conversion terms.

In November, Mr Jones sought to cool speculation that a share sale was imminent, saying there was more value to released from Energis and that its holding was likely to be sold over the next three to five years.

Energis shares, since then, have risen by 55 per cent in eight weeks, including a further 132¼p to £16.65 yesterday. The share sale, based on last night's closing price would raise £1.2bn of which £300m-£500m might be expected to come from exchangeable bonds. National Grid shares rose 17¾p to 545¼p.


David Jones (left) and Mike Grabiner, chief of Energis David Ahmed

Energis, floated at 290p in December 1997, uses a fibre optic network much of it strung along more than 6,000km of National Grid power lines.

At last night's share price, Energis's market capitalisation would top £4.5bn, making it eligible for inclusion in the FTSE 100 after the sale.

Body Shop falls on weak sales figures

By Susanna Voyle

Body Shop International yesterday surprised the market with a worse-than-expected Christmas trading statement – less than a week before it is due to unveil a new business strategy.

Analysts responded by cutting full-year pre-tax profit forecasts by up to 19 per cent, and the group is now expected to make £25m-£26m ($15m-$15.7m) in the year to the end of February. The shares fell 4p to 85p.

Analysts said the fall in the share price could have been worse but the City was waiting for details of the new strategy, due to be presented to analysts and shareholders on Tuesday by Patrick Gournay, chief executive.

The announcement by Mr Gournay, appointed as successor to Body Shop founder Anita Roddick last July, is expected to propose radical changes at the business which includes manufacturing, wholesale, franchise and retail arms.

Speculation on his plans has centred on a disposal of the manufacturing operations and an overhaul of the lines sold in the stores.

Body Shop said that for the 10 weeks to January 2, UK retail sales fell 2 per cent, while like-for-like sales were 6 per cent lower. The group blamed the fall on the weak Christmas trading climate and lower sales of seasonal accessories – goods such as candles.

In the US sales were down 8 per cent, with a like-for-like fall of 9 per cent. Like-for-like sales in Europe rose 3 per cent and were 8 per cent ahead in the Americas outside the US.

AMP considers listing in London

By Gwen Robinson in Sydney

AMP, Australia's largest insurance and fund management group, is considering a London listing, after a string of acquisitions which will make it the fifth-largest insurer in the UK.

George Trumbull, chief executive, said yesterday the listing for AMP, which made nearly 60 per cent of operating profits in the UK last year, was virtually certain within three to five years. He said: "We will have £55bn to £57bn pounds of assets in the UK and four highly recognised brand names – Pearl, NPI, Henderson and Virgin – it makes sense."

When AMP demutualised in December 1997, 170,000 UK policyholders received shares. There are 1.7m shareholders in Australia. AMP listed on the Australian Stock Exchange last June and is capitalised at A$21.3bn ($13.4bn).

AMP's bid last month for National Provident Institution, the insurer, in a deal worth £1.3bn pounds, still needs the approval of policy holders and the courts. But Mr Trumbull expressed confidence in its prospects. He dismissed concerns about AMP's capacity to digest both NPI and, in Australia, 57 per cent of GIO Australia Holdings, one of the largest general insurers. The real issue was management capability, he said.

AMP would like bring its fledgling AMP Bank into the UK. Its function would be to capture funds flowing from insurance operations that would otherwise leave the group. Mr Trumbull said: "We have no bancassurance in the UK. We're not going to buy a bank,but there is a need for deposit taking." AMP was likely to apply for a UK banking license this year. "It won't give us any distribution. We're not going to compete with Barclays."

Part of AMP's "digestion process" this year would be to extract greater cost benefits from its growing stable of UK assets: NPI, Pearl and its associated London Life, Henderson; and its Virgin Direct financial services joint venture.

Carlton buys film archive from Seagram

By Alice Rawsthorn

Carlton Communications, the UK media group, has bought the ITC library of films and television programmes for $150m from Seagram, after months of negotiations with the Canadian entertainment concern.

The ITC archive, originally assembled by the late Lord "Lew" Grade, includes 300 films and 5,000 hours of TV programming.

Seagram took control of the library last month through the $11bn acquisition of PolyGram, the Dutch music and film group. Having failed to auction the PolyGram Filmed Entertainment (PFE) division intact last autumn, Seagram has been selling assets piecemeal. MGM/UA, the US movie studio, bought the bulk of PFE's library in November for $250m, but Seagram reserved the ITC archive for Carlton.

With the addition of the ITC archive, producing annualised operating profits of roughly £9m on turnover of £20m, Carlton will own 2,200 films and 15,000 hours of TV programmes.

Seagram must now decide what to do with PFE's remaining assets.

It has also been negotiating the sale of October Films, the low budget film production and distribution company controlled by its Universal Pictures, to Barry Diller, the US media mogul.

Utd News to make $43m US purchase

By John Gapper

United News & Media, the publishing and broadcasting group, is to buy Audit & Surveys Worldwide, a US market research group, for $42.5m, in a deal that will double its market research arm in the US.

United News is expected to announce today it is buying Audit & Surveys, a public company traded on the American Stock Exchange, for $3.24 a share.

The move by United, which owns NOP in the UK and Mediamark Research in the US, means it will become one of the top five groups in the world offering customised market research to companies such as Coca-Cola and IBM.

United has secured the agreement of Soloman Dutka, chairman and chief executive of Audit & Surveys, and Carl Ravitch, the company's executive vice-president. They hold about 49 per cent of the shares. Mr Dutka is to remain as chairman of Audit & Surveys' board.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Coral Products	6 mths to Oct 31	6.65	(5.78)	1.24	(0.589)	4.2	(1.99)	0.875	Feb 22	0.75	-	2.25
Dawn to Dusk Φ	28 wks to Oct 16	32.6	(26)	0.316	(0.301♠)	4.4†	(5.6)	1.5	Mar 19	1.4	-	4.1
Debenham Tewson	6 mths to Oct 31	46	(36.7)	4.68	(3.16)	5.29†	(4.26)	1.5	Feb 24	1.3	-	3.5
Domino Printing	Yr to Oct 31	127	(121.3)	12.1	(11.5)	33.8	(28.5)	8.5	Apr 7	7.7	13.5	12.1
Fletcher King	6 mths to Oct 31	2.97	(2.5)	0.201	(0.144)	1.5	(1.2)	1	Mar 1	0.75	-	2.6
Orchard Furniture	Yr to Dec 31	4.6	(6.1)	0.035	(0489L)	0.1	(1.9L)	nil	-	nil	-	nil
Somerfield	28 wks to Nov 7☆	3,439	(1,836)	111.5♠	(60.8)	17.3†	(17.8)	4.5	Apr 8	3.8	-	-
Topps Tiles	6 mths to Nov 28	19.4	(15.3)	2.56	(2.14)	8.83	(7.35)	1.44	Feb 26	1.2	-	4.7
Victory Φ	6 mths to Sept 30	3.94	(-)	10.9L	(3.48L)	3.5L	(1.6L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberforth Smaller	Yr to Dec 31	221.2	(255)	7.24	(7.38)	8.75	(8.97)	4.55	Mar 5	4.4	7.3	7.05
M&G High Income	6 mths to Nov 30	18.71	(13.51)	1.11	(0.81)	2.09	(2.03)	0.98⚹	Feb 25	0.96	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives restated. ⚹Second interim.

BAE AND GEC

When size matters it is best to aim for being Number One

Alexander Nicoll explains how British Aerospace's acquisition of Marconi fits in to the changing global defence sector

In the defence business, the big boys want to be prime contractors. Whether your industrial expertise is in making aircraft, ships, missiles or the electronics that go in them, what you want is the ability to control the whole contract as the "systems integrator".

With British Aerospace's acquisition of the Marconi defence division of General Electric Company, announced yesterday, BAe has made itself the only British company likely to win the prime contract for the largest defence programmes, such as aircraft carriers or combat aircraft.

The company becomes a much more important force on the world stage, able to compete for business in almost every area of defence: Marconi adds capabilities in shipbuilding and specialist areas such as avionics and radar, as well as missiles and munitions.

Marconi's civil electronics products, such as head-up displays for pilots, will also complement BAe's presence in civil aircraft: BAe has a 20 per cent stake in the Airbus consortium for which it makes the wings.

The group will be even more committed than before to the £42bn ($69bn) Eurofighter programme, now entering production. This week, BAe as prime contractor awarded Marconi a contract worth at least £250m for the ECR90 radar which will be the aircraft's primary sensor. Marconi estimates its total business from the aircraft at more than £2bn.

BAe is the UK partner in development and production of Eurofighter, of which Britain, Germany, Italy and Spain have ordered 620. BAe will assemble 232 aircraft for the Royal Air Force at its Warton, Lancashire, plant and is making the front fuselage, stabilising fins and the first stage of the aft fuselage for all 620 at nearby Samlesbury. The Eurofighter partners have high hopes for its export prospects.

As part of a European consortium, BAe is bidding to supply the "beyond visual range" missiles which will be Eurofighter's main weapon, and has carried out a study for the Ministry of Defence on adapting Eurofighter for use on aircraft carriers.

BAe's military aircraft programmes include the best-selling Hawk trainer, the prime contract for the RAF's £2bn Nimrod 2000 maritime patrol aircraft, and upgrading of RAF Tornados. It has a 35 per cent stake in Saab of Sweden which makes the Gripen fighter.

As an Airbus partner, BAe has a strong interest in European governments, including Britain's, choosing the long-delayed Future Large Aircraft as their main transport plane. But it has also joined Boeing in bidding to supply the latter's C-17 transport to meet the RAF's immediate needs.

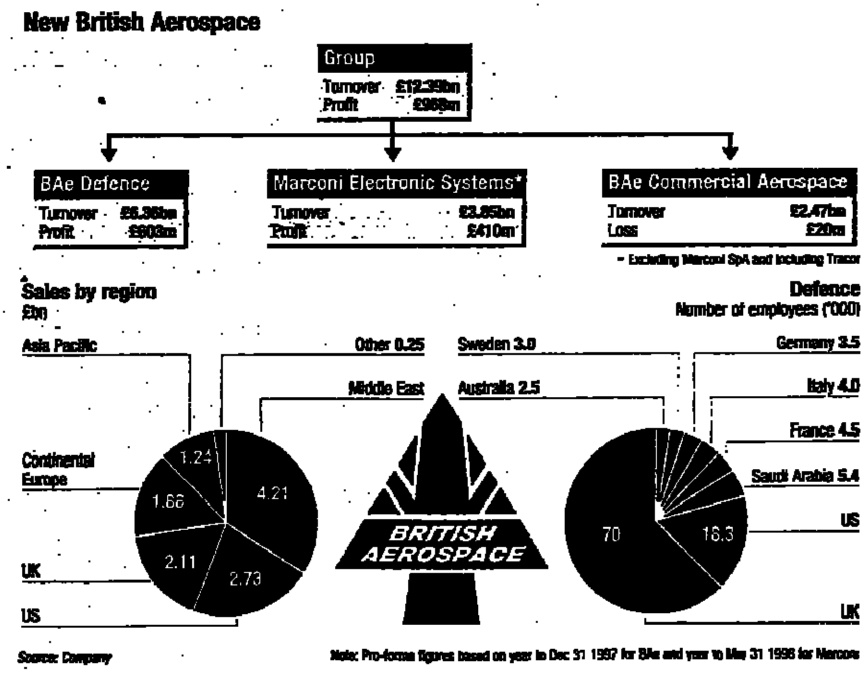
BAe's footing in other areas of defence has been less secure. Its Royal Ordnance munitions subsidiary has some successful businesses, such as the Heckler & Koch gunmakers, hardened missile warheads, and high explosives, which it is manufacturing exclusively for the US Army.

In other areas such as bulk ammunition, however, it can no longer compete with lower cost producers abroad. The whole business is under review, with one plant closure recently announced.

Marconi's expertise in this area, such as in the AS-90 howitzer for the British Army, will thus be welcome. Marconi is also prime contractor on a $1.3bn 155mm howitzer programme for the US Army and Marines. And it has important activities in missiles.

The area which BAe has been most anxious to boost, however, has been electronics. In the past two years it has acquired a stake in STN Atlas of Germany; it has taken over the former Plessey businesses of Siemens; and it has bought out its partner's stake in BAe Sema, a naval systems business.

Marconi will now become the core of its electronics business, with its expertise in avionics, radar, air defence systems, electro-optics, infra-red sensors and communications systems.



Marconi, which bought the former VSEL, is also one of two remaining British military shipbuilders. It is completing the fourth and final Vanguard-class Trident nuclear deterrent-carrying submarine and has the £2bn prime contract for three Astute-class submarines. By buying Marconi, BAe will remove a powerful competitor for the prime contract to oversee the development and construction of two new aircraft carriers.

BAe is emphasising, however, that the expanded future group is far from being all-British. It is tied to European companies through the Airbus consortium and through a series of joint ventures: in missiles, through Matra BAe Dynamics and Alenia Marconi Systems; in sonar, through Thomson Marconi Sonar; and in satellites, through Matra Marconi Space.

Marconi has substantial electronics interests in the US, where it last year paid $1.4bn for Tracor to become the sixth largest defence electronics contractor. BAe, meanwhile, has 5,500 employees in Saudi Arabia and is becoming an important defence contractor in Australia. It hopes to add to its spread of international interests – which includes a 35 per cent stake in Saab of Sweden – by buying holdings in Casa of Spain and Alenia of Italy. It is expected to seek similar participation in South Africa's defence industry.

BAe wants to become a broader European company. Whether it will be able to do so, however, will depend on reactions to yesterday's all-British deal.

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Unwittingly bundled out of a bargain

It should be possible to prevent software copying without restricting consumer rights

In the early days of the PC industry, computers and software were sold separately. Now most PCs come with "bundled" software. You might get a few games, a word processor and perhaps some personal finance software with a home PC. And; of course, nearly all PCs come with Microsoft Windows pre-installed.

For many PC users, pre-installed software is a benefit. *It is convenient to have the* software up and running on the *new machine and it seems to* be a bargain.

This software is not really free, however, and perhaps some PC buyers would prefer to save money by purchasing a "naked" PC and transferring software from an older machine. I am not advocating software piracy. If you have previously paid for a software licence, you usually have the right to transfer the program to a new computer, so long as you remove it from the old machine. If you are happy with the *software you are* currently using, this may be a *good way to minimise the costs* of replacing a computer.

But there is a catch. The PC industry's big guns are not keen on software recycling. They seem to be intent on making the process as difficult as possible. Most large manufacturers will not sell you a PC without any software installed. At a minimum, they require you to purchase Microsoft Windows – even if you already own a licence to the software.

For its part, Microsoft recommends that users do not attempt to transfer the operating system to a new machine. It can be fiddly and may involve installing new software "drivers" for the disk drives, modem, printer and so on, the company advises. As further discouragement, Microsoft fails to include with the "pre-installed" version of Windows a set-up disk needed to locate the CD-Rom drive on a naked PC and start the installation process.

In practice, therefore, the vast majority of consumers who replace PCs end up purchasing an *additional* licence to use Windows. This is great for *Microsoft, which collects licence* fees with the sale of almost every PC. In effect, the company imposes a Windows "tax" on PCs.

Microsoft does have legitimate concerns about people copying its software. If it were easy to transfer Windows from one PC to another, inevitably software piracy would increase. Yet I cannot believe that it is beyond the capabilities of the industry to devise anti-piracy schemes without restricting consumers' rights.

* * *

In a new twist on the "I wish I had never sent that e-mail" theme, city council members in Menlo Park, California, are facing the prospect of handing over copies of their electronic correspondence to a local newspaper.

Until recently, nobody thought about e-mail as part of the "public record" of how the council conducts business. Yet in a city that sits at the centre of Silicon Valley and is home to Stanford University it is no surprise that e-mail has become a popular method of communication among council members and with their constituents.

When an enterprising reporter from the Palo Alto Daily News asked the council to supply all e-mails relating to city business during the past year, council members complained, but then agreed to hand over their e-mail files. Trouble is, as the city attorney put it: "People have a tendency to use e-mail like a phone to have a private conversation, not like a letter to memorialise something in writing."

Inevitably, the e-mail files will reveal casual remarks never intended for public consumption. *It may never make international* headlines, but publication of Menlo Park city council's e-mails could be a trendsetter. Perhaps all holders of public office should be careful about what they say in e-mails. Shouldn't we all?

* * *

Where do you use your cellular telephone? The cellphone is at its most useful when you are on the move and away from the computing and communications *facilities* on your desk. So how will the much heralded "smart *phones" and pocket-sized* "communicators" that combine e-mail and web access with cellular communications fit into our lives?

You are rushing for a train when a beep tells you an urgent e-mail message has arrived. Are you going to stop and squint at a tiny display to read the message? Probably not. You are driving to work and wondering if an important e-mail has arrived. Are you going to take your eyes off the road to scan your in-box? I certainly hope not. Or perhaps you need directions to your destination, information about local restaurants, or an update on a flight departure time. Are you going to key in "www etc." as you search for a parking place? I seriously doubt it.

The point is that the internet, as we know it today, with information displayed on a screen, is not well suited to small devices with limited display capabilities that are used by people on the move. Neither is it convenient to have messages and information delivered to these devices using interfaces adapted from those of a desktop PC.

Text-to-speech conversion and voice recognition will be part of the solution. Global positioning technology may also be important. If your phone service knows where you are, it may better serve your immediate *information needs.*

These are the critical elements of a "voice portal" *for* the internet developed by Arabesque Communications, a California start-up founded by a group of high-tech veterans with roots in the "voice messaging" business. Rather than adapt telephones to the internet, they have developed a platform for services designed for the mobile worker.

Their "voice portal" also addresses the biggest problem faced by cellular telephone *services: how to retain customers* who tend to skip to the next *"special offer" as soon as their* service contract runs out. What if, *for example, your desktop* calendar was automatically transferred to your wireless information service? You are driving to a meeting and need directions. "Turn right at the next junction," your car phone tells you. Then comes an e-mail alert: the other party has been delayed. You stop for a coffee and catch up on your e-mail or voicemail messages. Now that makes a lot more sense.

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on lkehoe@ix.netcom.com

Information Technology
● The FT's review of *Information Technology* appears on the first Wednesday of each month

JOHN KAY

Flowers and weeds

English retailing offers some useful lessons about positioning and competitive advantage

English retailing is like an English garden. There are hardy *perennials* in the background: Marks and Spencer; John Lewis *department stores;* J. Sainsbury, the food retailer; and Harrods. Through decades they remain sturdy and reliable. In front there are the annuals, which flourish briefly and then fade. Coffee shops are today springing up everywhere. Sock Shop, a niche chain, or Laura Ashley, a clothes and home furnishings group, wilt. But few people now remember hot bread shops, or Next Interiors, a home furnishing extension of the high street fashion company.

Last week one of the *reliable* perennials, Marks and Spencer, *showed signs of* ill-health. What makes retailers flourish? What distinguishes annuals from perennials? Are some of our perennials in need of renewal?

Transitory competitive advantages in retailing are generally based on clever positioning. George Davies, who developed Next, saw a market for stylish clothing for slightly older women than fashion retailers were catering for. Body Shop, *Direct Line*, the telephone-based insurer, and bars with real ales *and no loud music were all the* results of similar insights.

But two things went wrong with Next. The niche identified was rapidly invaded by competitors, many with stronger retailing skills. And the company persuaded itself that its success was the result not of a transitory dominance of a neglected market segment but of universal management genius applicable to a range of retail activities. It went on a spree of acquisition and diversification, and came close to nemesis as a result.

With hindsight, these errors are easy to identify. Positioning is not a source of sustainable competitive advantage for any business, because it is easily copied. For a time, Kwik Save, a cut-price retailer, seemed to be an exception to this rule. For several years it earned one of the highest returns on capital employed of any large British company. And yet its formula – branded goods sold at low prices in unattractive surroundings in secondary locations – was based on positioning, and a readily reproducible positioning at that.

But in the consumer boom of the 1980s, it was not reproduced. It was then a business cliché that customers would *always pay* a premium for quality, and Kwik *Save's natural competitors,* Gateway (now Somerfield) and *Asda, moved* upmarket in what proved an unsuccessful emulation of Sainsbury and Tesco. Recession, and entry by continental retailers such as Aldi and Netto, eventually proved that Kwik Save was indeed no exception to the rule – its positioning was not enough. Its profits, reputation and rating suffered accordingly, and it is no longer an independent company.

Enduring competitive *advantages in retailing are based* on brands and systems, and it is *strengths* in these areas that have differentiated the hardy *perennials from* the rest.

Nothing illustrates the weakness of positioning advantages and the importance of brands and system more clearly than Tesco. That company's success in the early years of UK supermarket retailing derived from its positioning – its slogan was famously "pile 'em high, sell 'em cheap". But as Tesco created the systems to match Sainsbury, it created a Tesco brand. After 20 years, the results show astonishing success. Real competitive advantages take longer to build, and last longer. Market positioning is a competitive advantage only when it is matched with competitive advantage based on brands and *systems*. It is in these areas that Marks and Spencer has had such *an enviable* record. It has the best brand on the High Street – *not only* for customers, who associate it with dependability *and* value, but also for its staff, for whom the firm has always *been* a *preferred* employer.

The external architecture of *Marks* and Spencer's organisation was built around an *almost* Japanese relationship with suppliers; detailed influence *on product* specification as part of relationships sustained over *many* years. Its internal architecture was centred on permanent employment relationships, strong organisational routines, and a sense that there was a *Marks* and Spencer way of doing things.

With competitive advantages such as these, there is always a balance between exploiting *them* in the short run and developing them for the *long term.* You can always increase profits faster than underlying sales, for a bit – by taking full advantage of your *strong customer* franchise in your prices; by putting pressure *on suppliers* and diversifying your supply relationships; by reducing staff numbers and employment security; by eroding the things that make you different from your competitors.

Perhaps that is what Marks and Spencer did as it became leaner, meaner and more aggressive in the 1990s. Perhaps today it is paying the price. Perhaps that defines the dilemma: does it meet shareholder expectations for earnings today and tomorrow by pushing these processes further and becoming more like its competitors? And accept that in the long run, that will also lead to the same returns as its competitors earn?

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

CONTRACTS & TENDERS

MINISTRY OF THE ECONOMY
ET DES FINANCES

REPUBLIC OF CAMEROON
Peace-Work-Fatherland

TECHNICAL COMMITTEE FOR PRIVATIZATION AND LIQUIDATIONS

PRIVATIZATION OF
THE CAMEROON DEVELOPMENT CORPORATION (CDC)

INVITATION FOR PREQUALIFICATION

Within the framework of its program to privatize public and para-public enterprises, the government of the Republic of *Cameroon is launching an international call for pre-qualification for the privatization of the Cameroon Development* Corporation (CDC) sectors. The privatization strategy adopted does not preclude bidding for more than one sector.

The main objective behind the privatization of the CDC is to allow for short term improvements in the performance of the company and to unleash the significant growth potential it harbours, given the recovery noted in the agricultural exports sector since 1994.

The Cameroon Development Corporation is one of the oldest and biggest agro-industrial complexes in Cameroon. It has a labour force of some 13,000 and is the second biggest employer after the State. The CDC was created in 1947. It has a registered capital of 15,626 Million F CFA, the State of Cameroon holding 100% of the shares. CDC holds some 100,000 hectares of land by concession, of which about 42,000 have been developed basically for the farming of rubber, oil palm, banana and tea. The CDC operates in four of Cameroon's 10 Provinces (South-West, North-West, West and Littoral).

Over the years, the CDC has put in place substantial infrastructure and an adapted organizational structure for the accommodation, education, health and the general welfare of its employees, in order to blend properly with its environment and operate under optimal conditions.

At the financial level, it must be noted that at the end of the 1997/1998 financial year, which was marked by a drop in world rubber prices, the CDC was able to generate an overall tax-free turnover of about 39 Billion F CFA as well as value added of some 19 Billion F CFA.

The great diversity of CDC products is a major asset for the economic viability and sustainability of the corporation and its four main sectors.

The Rubber Sector has eleven (11) industrial plantations with a total surface area of about 19,652 hectares; to which must be added 2,200 hectares owned by local farmers benefiting from CDC extension services. Production from the nine (9) factories of this sector as at 30 June 1998 stood at 25,538 tons.

The Palm Oil Sector comprises seven (7) industrial plantations *with a total surface area of about* 16,537 hectares, to which must be added 2,700 hectares owned by local farmers benefiting from CDC extension services. *It* has two (2) oil factories with a total processing capacity of 40 tons of palm bunches per hour. The production for 1997/1998 stood at 19,104 tons of crude palm oil, and 5,191 tons of kernels.

The Banana Sector is made up of two (2) industrial plantations with a total surface area of about 2,150 hectares. It has ten (10) processing plants and production for the 1997/1998 season stood at some 85,481 tons of high quality banana.

The Tea Sector has three (3) industrial plantations with a total surface area of *about 1,521* hectares. *It* has three (3) factories. Production for the 1997/1998 season stood at 4,189 Tons.

This pre-qualification notice and the attendant Information Memorandum is designed for the attention of national and foreign investors, acting individually or collectively, who have a sound track record of technical competence in the exploitation of tropical plantations and are operating in the rubber, oil palm, banana and tea sectors.

The pre-qualified candidates to be short-listed shall be invited to hold discussions with the Administration on the conditions for *the final call for tenders and to conduct field trips. They shall be given the file on the final call for* tenders and shall be expected subsequently to submit their financial and technical bids in accordance with the conditions laid down in the tenders file.

In this regard, the Government of the Republic of Cameroon hereby invites all interested companies to submit their qualifying references in order to participate in the privatization of the Cameroon Development Corporation and avail themselves of the opportunities arising there from.

Accordingly, an Information Memorandum providing the essential data, figures and information on the CDC as well as the rules pertaining to this pre-qualification shall be available on January the 15th 1999 against payment of the sum of 500,000 F CFA or 5,000 FRF and signing of a letter of confidentiality with one of the following bodies:

The Technical Commission for Privatization and Liquidation
Attention: Mr. BASSORO Aminou
9th Floor
SNI Building
Younde, CAMEROON
Tel. (237) 23 97 50
Fax (237) 23 51 08

The Cameroon Embassy in:
• BRUSSELS
• LONDON
• OTTAWA
• PARIS
• TOKYO
• WASHINGTON

PricewaterhouseCoopers
Attention:
Mr Francois MAUBOUCHE
32, Rue GUERSANT
75017 PARIS
FRANCE
Tel. (33) 1.5657.8000
Fax (33) 1.5657.5860

The pre-qualification application and the documents submitted in this regard should be forwarded, in five (5) copies with a self-addressed envelope, to *The Technical Commission for Privatization and Liquidation, Yaounde not later than* March the 31st 1999 at 5.00pm local time.

The Minister of State in charge of the Economy and Finance

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EURO PRICES

EQUITIES

Traders sober up after telecom party

EUROPEAN OVERVIEW

By Bertrand Benoit

Renewed concern over Brazil, a poor Wall Street performance and downbeat macroeconomic prospects weighed upon European equity markets yesterday with the main bourses closing about one per cent lower after a see-saw day.

Hopes the free-floating Brazilian Real had reached its lowest level were dashed after it the currency slipped by a further 10 per cent on Monday, adding to last week's devaluation.

Greater-than-expected dollar flight prompted the central bank to lift its lending rate from 29 to 41 per cent, raising concerns that the Brazilian crisis was getting out of control.

Meanwhile, analysts said operators had sobered up after Monday's batch of mergers and were now factoring in dismal corporate earnings prospects.

"Markets are getting cold feet," said James Cornish, European equity strategist at BT Alex Brown. "People are now revaluing earnings downward especially in Spain and the UK, where bids have been rife."

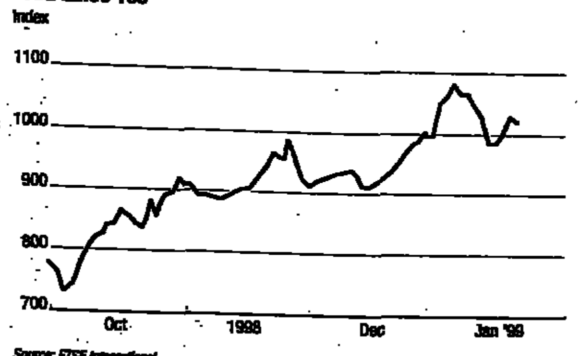
The European Central Bank further darkened the picture in its first monthly bulletin published yesterday. Current global developments "could turn out to be more serious than is currently anticipated," the bank said, adding that lagging industrial confidence "fostered expectations of a slowdown in the growth of economic activity in the short term."

The FTSE Eurotop 300 index of leading European shares lost 10.18 to 1,213.54, while the FTSE Eurotop 100 index shed 26.25 to 2,792.23. The FTSE Ebloc 100 index closed 7.43 lower to 1,022.23.

News of the merger of British Aerospace with GEC's Marconi Electronics failed to instil excitement in the London market, where the deal was anticipated. But with rationalisation of the European defence industry now looking less certain, other stocks in the sector lost ground. Thomson CSF dropped €1.70 to €33, while Daimler Chrysler closed €1.20 lower at €90.

Telecom stocks were hit by profit-taking after Monday's merger-induced gains. Vodafone lost €1.50 to €16.02, while Orange closed €1 lower to €14.27. Deutsche Telekom, however, gained €2.40 to €37.30 after reporting 1998 results in line with expectations.

FTSE Ebloc 100



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Jan 19

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1213.54	−0.83	−10.18	2.25	0.38	1249.97
FTSE Eurotop 100	2792.23	−0.93	−26.25	2.31	1.65	1001.51
FTSE Ebloc 100	1022.23	−0.72	−7.43	2.03	0.34	1037.98
FTSE EuroMid	1143.18	−0.68	−7.79	2.95	0.80	1185.34
FTSE EuroMid Ebloc	1197.56	−0.98	−11.87	2.33	1.17	1224.07
FTSE EuroMid Ex UK	1220.28	−0.71	−8.72	2.24	0.80	1243.68
FTSE Eurotop 300 Regions						
Eurobloc	1276.49	−0.70	−9.06	1.98	0.56	1304.38
UK	1122.89	−1.54	−17.51	2.70	0.30	1179.10
Europe Ex-Eurobloc	1161.27	−0.97	−11.38	2.54	0.22	1203.02
Europe Ex-UK	1265.65	−0.48	−6.07	2.03	0.43	1289.78
FTSE Eurotop Industry Sectors						
RESOURCES	838.03	−1.72	−14.67	3.42	0.94	877.33
Mining	734.36	−1.00	−7.39	4.71	0.00	749.87
Oil & Gas	810.79	−1.75	−14.42	3.37	0.94	831.39
BASIC INDUSTRIES	1031.16	−1.76	−18.44	2.81	0.15	1053.25
Chemicals	814.55	−1.87	−15.48	2.75	0.16	829.10
Construction & Bld Matls	853.16	−2.51	−21.93	2.71	0.00	860.53
Forestry & Paper	861.44	+1.24	+10.59	3.58	0.00	900.83
GENERAL INDUSTRIALS	1083.39	−0.44	−4.84	2.55	0.13	1106.57
Aerospace & Defence	782.62	−7.71	−65.34	2.08	0.00	783.43
Diversified Industrials	986.86	−0.13	−1.30	2.04	0.00	1009.44
Electronic & Elect Equip	945.85	−0.92	−8.79	1.93	0.00	951.01
Engineering & Machinery	949.07	+0.93	+8.75	4.18	0.45	962.64
CYCLICAL CONS GOODS	1297.14	−1.07	−14.04	2.54	0.00	1332.83
Automobiles	963.89	−1.30	−12.66	2.40	0.00	972.83
Household Goods & Texts	1261.36	+0.19	+2.40	3.28	0.00	1272.13
NON-CYC CONS GOODS	1267.18	−0.47	−5.98	1.44	0.05	1302.10
Beverages	927.83	−1.69	−15.94	2.88	0.00	947.86
Food Producers & Process	942.42	−0.45	−4.30	1.64	0.00	953.50
Health	905.23	−3.45	−32.38	6.39	0.00	918.77
Packaging	729.98	−0.21	−1.51	1.24	0.00	730.87
Personal Care & Hse Prods	1106.00	−1.51	−16.90	0.87	0.00	1115.44
Pharmaceuticals	1174.99	−0.10	−1.20	1.08	0.00	1181.38
Tobacco	1471.67	−1.67	−24.97	3.22	1.42	1501.14
CYCLICAL SERVICES	1232.80	−0.42	−5.18	2.47	0.57	1269.35
Distributors	726.40	−0.77	−5.65	4.06	0.00	734.56
General Retailers	1028.21	−1.25	−12.97	3.05	1.06	1050.49
Leisure Entertmt & Hotels	785.29	−3.97	−32.49	2.57	6.02	801.62
Media & Photography	1075.35	−0.57	−6.21	2.14	0.00	1088.83
Rests, Pubs & Breweries	789.39	−2.31	−18.69	3.49	2.64	815.07
Support Services	1114.17	+2.05	+22.40	1.32	0.00	1125.99
Transport	939.65	+1.53	+14.13	2.64	0.00	956.97
NON-CYCLICAL SERVS	1342.15	−1.38	−18.78	1.49	0.00	1381.42
Food & Drug Retailers	1054.50	−0.51	−5.44	1.95	0.00	1070.71
Telecommunications Servs	1323.03	−1.57	−21.16	1.40	0.00	1342.73
UTILITIES	1547.60	−0.66	−10.31	2.85	3.35	1645.00
Electricity	1204.21	−0.52	−6.26	2.92	3.42	1246.50
Gas Distribution	1226.59	−0.94	−11.61	1.53	1.00	1351.82
Water	938.71	−1.13	−10.71	5.30	0.00	984.13
FINANCIALS	1289.91	−0.59	−7.68	2.55	0.13	1325.26
Banks	877.48	−0.64	−5.69	3.35	0.16	890.11
Insurance	1035.53	−0.35	−3.59	1.35	0.00	1048.03
Life Assurance	1190.94	−0.88	−10.54	1.64	0.00	1206.41
Investment Companies	986.20	−2.31	−23.27	1.82	0.00	1009.86
Real Estate	633.74	−1.43	−9.20	3.78	0.00	650.22
Speciality & Other Fin	876.42	−0.58	−5.14	2.56	0.00	891.05
INFORMATION TECH	877.43	−1.26	−11.17	1.18	0.00	879.52
Information Tech Hardware	942.99	−0.54	−5.16	1.40	0.00	945.24
Software & Computer Serv	728.50	−3.30	−24.86	0.52	0.00	730.23

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THREE MONTH EURO FUTURES (LIFFE) Euribor points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr		[illegible]				0	0
Jun		[illegible]	[illegible]			0	2463
Sep		[illegible]	[illegible]			0	1532
Dec		[illegible]	[illegible]			0	669

THREE MONTH EURO OPTIONS (LIFFE) Euribor points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Eur20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2816.0	2815.0	−10.0	2851.0	2793.0	237	5852
Jun		2819.0	−10.0			0	0

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Eur10 per index point

[illegible]

OTHER INDICES

	Jan 19	Jan 18	Jan 15	1998/9 High	1998/9 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DJ Euro Stx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MSCI Europe	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Datastream, FT Information.

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Jan 19 — Closing mid-point, Change on day, Bid/offer spread, Day's mid high/low, One month Rate %PA, Three months Rate %PA, One year Rate %PA

Europe: Czech Rep., Denmark, Greece, Hungary, Norway, Poland, Romania, Russia, Slovakia, Sweden, Switzerland, UK; Americas: Argentina, Brazil, Canada, Mexico, USA; Pacific/Middle East/Africa: Australia, Hong Kong, India, Indonesia, Israel, Japan, Malaysia, New Zealand, Philippines, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, UAE — [illegible]

Euro Locking Rates: Austrian Schilling 13.7603, Belgian/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. The offer and spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

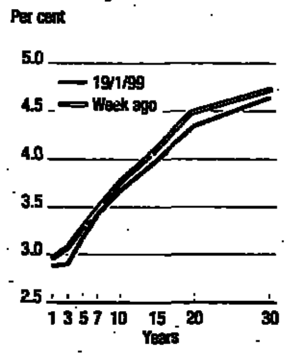
BONDS

INTEREST RATE SWAPS

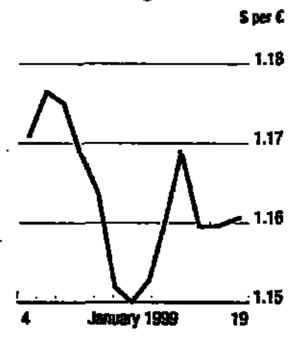
Jan 19	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	2.98	3.01	2.98	3.01	5.47	5.50	5.03	5.06	0.50	0.53
2 year	3.00	3.04	3.00	3.04	5.21	5.24	5.07	5.10	0.62	0.65
3 year	3.13	3.17	3.13	3.17	5.17	5.21	5.15	5.18	0.86	0.89
4 year	3.27	3.31	3.27	3.31	5.15	5.19	5.20	5.23	1.10	1.13
5 year	3.42	3.46	3.42	3.46	5.13	5.17	5.26	5.29	1.33	1.36
6 year	3.56	3.60	3.56	3.60	5.12	5.16	5.32	5.35	1.54	1.57
7 year	3.70	3.74	3.70	3.74	5.12	5.16	5.36	5.39	1.73	1.76
8 year	3.83	3.87	3.83	3.87	5.12	5.16	5.41	5.44	1.89	1.91
9 year	3.95	3.99	3.95	3.99	5.12	5.16	5.45	5.48	2.02	2.05
10 year	4.04	4.08	4.04	4.08	5.12	5.16	5.49	5.52	2.12	2.15
12 year	4.20	4.24	4.20	4.24	5.12	5.17	5.59	5.62	2.33	2.36
15 year	4.39	4.43	4.39	4.43	5.13	5.19	5.70	5.73	2.58	2.61
20 year	4.59	4.63	4.59	4.63	5.13	5.20	5.80	5.83	2.80	2.84
25 year	4.69	4.73	4.69	4.73	5.13	5.20	5.81	5.84	2.85	2.89
30 year	4.76	4.80	4.76	4.80	5.13	5.20	5.83	5.86	2.92	2.96

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor. £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Jan 19	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
SOVEREIGNS								
UK	07/01	4.250	AAA	102.448	2.98	+0.00	−0.26	+0.14
Denmark	01/02	4.750	AA+	104.689	3.07	+0.00	−0.27	+0.17
Sweden	02/01	5.000	AA+	103.898	3.00	+0.00	−0.31	+0.16
Greece	11/06	6.750	BBB	116.476	4.23	+0.00	−0.25	+0.02
SUPRANATIONALS								
ADB	10/07	5.500	AAA	109.910	4.13	−0.01	−0.10	+0.63
EIB	04/08	5.000	AAA	108.717	3.86	−0.01	−0.09	+0.27
Eurofima	12/09	5.625	AAA	111.705	4.26	−0.01	−0.14	+0.51
World Bank	04/05	7.125	AAA	119.127	3.63	+0.01	−0.13	+0.22
UTILITIES								
EDF	10/03	3.750	n/a	101.895	3.31	+0.00	−0.15	+0.28
TEPCO	02/03	4.750	AA	104.246	3.61	+0.00	+0.02	+0.58
Quebec Hydro	03/09	5.375	A+	107.174	4.40	−0.01	−0.19	+0.81
Norsk Hydro	10/99	7.250	n/a	102.520	3.50	+0.01	−0.12	+0.57
FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	110.172	4.20	−0.02	−0.12	+0.46
OKB	09/07	5.750	AAA	113.056	3.93	−0.01	−0.19	+0.43
Credit Local	04/08	5.250	AA+	108.084	4.18	−0.01	−0.10	+0.59
Abbey Natl	01/09	5.000	AA−	104.042	4.49	−0.01	−0.21	+0.82
INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.724	3.27	−0.02	−0.15	+0.43
McDonalds	03/08	5.125	AA	110.332	3.77	−0.01	−0.19	+0.18
Philip Morris	06/08	5.625	A	107.130	4.67	−0.01	−0.43	+1.08
BAT Int Fin	07/06	5.375	A−	103.557	4.60	+0.00	−0.26	+1.33
PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	106.310	3.15	−0.04	−0.29	+0.31
Eurohypo AG	01/04	5.000	n/a	107.201	3.40	−0.03	−0.28	+0.22
Bayer Vereins	01/08	6.000	n/a	114.276	3.65	−0.04	−0.29	+0.24
Depfa	07/08	4.750	n/a	106.075	3.97	−0.04	−0.35	+0.33
HIGH YIELD								
Gebert	04/07	10.125	n/a	109.809	8.01	−0.02	−0.40	+4.51
Colt Telecom	11/07	8.875	n/a	102.220	8.51	+0.04	+0.21	+5.01
Impress Metal	05/07	9.875	B	109.946	7.76	−0.03	+0.16	+4.26
Remy Cointreau	07/05	10.000	B+	91.298	11.96	−0.02	−0.79	+8.65

Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE EUROTOP 300

Name / Price (Euro) / Chge + or − / Mkt cap Euro(bn) / Vol (m) / Yld

AEROSPACE & DEFENCE; AUTOMOBILES; BANKS; BEVERAGES; CHEMICALS; CONSTRUCTION & BUILDING; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQUIPT; ENGINEERING & MACHINERY; FOOD & DRUG RETAILERS; FOOD PRODUCERS & PROCESSORS; FORESTRY & PAPER; GAS DISTRIBUTION; GENERAL RETAILERS; HEALTH; HOUSEHOLD & TEXTILES; IT HARDWARE; INSURANCE; INVESTMENT COMPANIES; LEISURE ENTERTAINMENT & HOTELS; LIFE ASSURANCE; MEDIA & PHOTOGRAPHY; MINING; OIL & GAS; PACKAGING; PERSONAL & HOUSEHOLD PRODUCTS; PHARMACEUTICALS; REAL ESTATE; RESTAURANTS PUBS & BREWERIES; SOFTWARE & COMPUTER SERVICES; SPECIALITY & OTHER FINANCE; SUPPORT SERVICES; TELECOMMUNICATION SERVICES; TOBACCO; TRANSPORT; WATER — [illegible]

Name	Price (Euro)	Chge + or −	Mkt cap Euro(bn)	Vol (m)	Yld
Sanofi	174.00	−5.7	18.9	0.2	0.6
Schering	110.00	−2.2	7.8	0.1	1.2
SmithKline Bchm	12.89	−.2	70.9	13.1	1.3
Synthelabo	224	−7.0	10.8	-	0.4
Zeneca	39.40	+.1	37.4	1.5	1.8

Notes: Price data and market capitalisations supplied by FTSE International. Market cap figures are based on shares used in index calculations. [illegible]

Adjustment of Conversion Conditions

Fortis (NL)

NLG 1,500,000,000
Fortis (NL) (formerly Fortis AMEV)
2.625% Guaranteed Convertible Notes due 2003
Guaranteed by Fortis (B) (formerly Fortis AG)
and convertible into Ordinary Shares or American Depositary Shares of Fortis (NL) (the 'Notes')

By amendments to the articles of association of Fortis AMEV and Fortis AG, which are in effect as of 1 January 1999, the names of Fortis AMEV and Fortis AG were changed in Fortis (NL) and Fortis (B) respectively. Amsterdam Exchanges has been requested to have the name of Fortis AMEV in relation to the Notes adapted in the Official Price List as per 21 January 1999.

With reference to the Terms and Conditions of the Notes, it is herewith announced that as a result of the 1:2 stocksplit of the Fortis (NL) shares as per 11 January 1999 the Conversion Price of the Notes in euro is now approximately 31.50936.
This Conversion Price represents an exchange ratio of approximately 14.4014 ordinary shares Fortis (NL) per NLG 1.000 principal amount of the Notes.

20 January 1999

Utrecht,
Fortis (NL)

Fortis is an international group which supplies banking, investment and insurance services to private individuals and businesses. In its home market - the Benelux countries - Fortis is one of the largest providers of financial services, supplying a broad range of financial products through a variety of distribution channels. In other European countries, as well as in the United States and Asia, Fortis concentrates on specific market segments.

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Sun Life Global Portfolio (SICAV)

Registered Office: 50, avenue J.F. Kennedy, L-2951, Luxembourg
R.C. Luxembourg B27526

Dividend Announcement

The Board of Directors announce that a dividend has been declared on Haven Portfolio at the rate of 1.28 pence per share which will be paid on 11th February 1999 to the respective Shareholders of that portfolio as recorded at the close of business on 31st December 1998

The Board of Directors 20th January 1999

US$150,000,000

Espirito Santo Financial Holding S.A.

Floating Rate Notes due 2000

Notice is hereby given that for the three month period from January 20, 1999 to April 20, 1999 the Notes will carry an interest rate of 5.46884% per annum. The interest amount payable on the interest payment date, April 20, 1999 will be U.S. $138.75 for Notes in denominations of U.S. $10,000.

By: The Chase Manhattan Bank London, Agent Bank

January 20, 1999 CHASE

Rothschilds Continuation Finance B.V.

U.S. $75,000,000

Subordinated Guaranteed Floating Rate Notes due 2015

For the six months 19th January, 1999 to 19th July, 1999 the Notes will carry an interest rate of 5.25% per annum with a coupon amount of U.S. $263.96 per denomination of U.S. $10,000 payable on 19th July, 1999.

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FUTURES CRUCIAL VOTE DUE SOON

CBOT chiefs divided over Eurex link

By Nikki Tait in Chicago and Vincent Boland in London

Deep divisions have emerged among top executives at the Chicago Board of Trade, the world's biggest futures market, days before its members face a crucial vote on a planned alliance with Eurex, Europe's leading derivatives exchange.

The alliance would see the CBOT and Eurex develop a joint trading platform to trade and distribute each other's products and would create a potentially formidable competitor in the battle for market share in exchange-traded derivatives.

David Brennan, newly-appointed CBOT chairman, wrote in a letter to members he "could not support the deal as structured". However, last week David Fisher, CBOT first vice-chairman, urged members to vote in favour of Eurex, saying it was "the right deal for the *institution as a whole*".

Mr Brennan, who was elected late last year with the support of a small majority of CBOT members, said some aspects of the deal were favourable. A properly structured alliance could be "a terrific business venture for the CBOT", including a share of ownership in and access to a "worldwide network with thousands of screens and thousands of institutional and other trading customers".

It would also give the CBOT more exposure in Europe, with the likely growth in European interest rate trading in the wake of European monetary union.

But he argued that the cost – which he put at up to $80m – was high relative to the technology benefits, and suggested the CBOT may have to invest up to $65m in the project by next autumn. This is much higher than suggested by Pat Arbor, Mr Brennan's predecessor, who indicated the cost would be capped at around $23m.

However, Mr Fisher argued the $17m already spent on the proposed Eurex link would be wasted if the deal was rejected and that the CBOT would still have to spend heavily to develop its own technology. A vote in favour would also allow the exchange to pre-empt its local competitors.

Describing the CBOT as "only a medium-sized financial institution," Mr Fisher told members in a letter: "This is the right business alliance, with the largest exchange in Europe, and it is crucial if we wish to expand *distribution of all our products* in the largest growth market over the next few years."

Eurex, formed last year by the Deutsche Terminbörse and Soffex, the Swiss futures market, declined to comment on the developments.

Mr Brennan's letter was released shortly before the first CBOT board meeting he will chair since taking over this month.

At the end of last year, under the chairmanship of Mr Arbor, the board reaffirmed its support for the Eurex deal. The CBOT said yesterday it did not expect that issue to be on yesterday's agenda again.

Markets mixed over Brazil

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

Bond markets turned in a mixed performance yesterday as investors remained uncertain about the impact of the Brazilian currency crisis on the US and global economy.

Brazil's move to raise the interest rate from 29 per cent to 41 per cent late on Monday prompted debt prices to rise. Brazil's benchmark "C" bond added to earlier gains, rising another 75 basis points in price.

But the move did not convince currency traders and the real slid further against the dollar. Other Latin American markets were trading broadly lower late yesterday.

In the US Treasury market the 30-year bond, the benchmark for long-term US interest rates, fell $\frac{5}{32}$ to $101\frac{15}{32}$, sending the yield higher to 5.122 per cent. Shorter-term issues held up better, with the 10-year note unchanged at 100½, yielding 4.685 per cent, and the two-year note also unchanged at $100\frac{1}{32}$, yielding 4.573 per cent.

Phyllis Reed at Barclays Capital said heavy-hitting investors such as pension funds and insurance companies were showing a strong interest in US treasuries. "US bonds are still looking extremely cheap compared to equity, which are certainly overvalued," she said.

Investors were also cautious ahead of today's testimony by Alan Greenspan, chairman of the US Federal Reserve, before the House of Representatives. Investors will pay close attention to his comments about the state of the US economy and the impact of developments in Brazil. The US is actively involved in attempts to resolve the crisis and prevent it spreading to other economies in the region.

Danyelle Guyatt at Deutsche Bank said that judging by Mr Greenspan's previous speeches, he was likely to choose soothing words to calm the markets, which have wavered between complacency and anxiety.

In the European markets, the March German bund future closed slightly higher at 117.48 while the French 10-year bond future edged 0.04 down to close at 112.88.

The UK gilt sold off significantly in early trading after the Office for National Statistics said underlying inflation rose by 0.2 per cent to 2.6 per cent in December, above the Bank of England's target of 2.5 per cent.

The rise was both unexpected and unwelcome and damped expectations of a cut in interest rates. Interest rate futures fell sharply. But gilts recovered most of their value by the close of the market, the gilt 10-year future ending at 119.31, only 0.05 lower.

Dresdner Finance in FRN debut

NEW ISSUES

By Khozem Merchant

Dresdner Finance, part of the German banking group, yesterday launched its debut floating rate note, a five-year $1bn bond. The bank is an infrequent visitor to the debt market and its aim was to create a benchmark *"floater"*.

There has been a healthy flow of FRN issuance this year after a quiet late 1998. This was mainly due to the inactivity of banks, traditionally the main issuers of this type of instrument, and broader worries over emerging market instability.

This year dollar and euro FRN have dominated while sterling FRN paper has been rarer. One exception was Abbey National, one of the UK's biggest banks, which launched a £2bn FRN note last week. The inactivity in sterling FRN is down to the high cost of sterling conversion. Bankers say the FRN sector will continue to focus around dollar and euro paper so long as the cost of conversion out of sterling continues to be expensive.

Yesterday's bond was priced at Libor plus 15 basis points and traded at the re-offer. A comparable bond by Deutsche Bank, which is on watch for a possible downgrade (Deutsche is rated aa1/aa+ compared with Dresdner's aa1/aa) is trading at 13 basis points over Libor. The Dresdner offering was jointly managed by Dresdner, Bear Stearns and Salomon Smith Barney.

The flow of drachma debt shows no sign of relenting. Yesterday the European Bank for Reconstruction and Development offered a three-year Dr15bn issue, following the World Bank's Dr10bn bond earlier this week. Markets believe Greece is a safe "convergence bet" and will join Emu in 2001.

They are buying up the heavy issuance in the expectation that the drachma yields will fall from their present level of 6.5 per cent for short-dated bonds to the euro level of about 3 per cent, allowing them to profit from the alignment.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Dresdner Finance‡	1bn	(a)	99.889	Jan 2004	0.15	-	Dresdner/B Stearns/SSB
Nomura	500	5.20#	99.930	Jan 2002	1.10	-	Nomura
Royal Bank of Canada‡	300	(b)	99.995	Jul 2000	0.075	-	CSFB
■ EUROS							
SunAmerica Inst Funding	60m	(c)	99.20R	Jan 2017	0.50R	-	Caboto Holdings
■ SWISS FRANCS							
PSK	300	3.25	102.35	Feb 2011	2.875	-	CSFB
BNG	150(d)	3.25	104.95	May 2008	2.625	-	ABN Amro
■ NEW ZEALAND DOLLARS							
NSW Treasury Corp	100	5.25(l)	100.93	Feb 2001	1.250	-	TD Securities
■ GREEK DRACHMAS							
EBRD	15bn	(f)	99.831R	Feb 2002	0.192R	-	RBC DS

Final terms, non-callable unless stated. Yield spread (over relevant govt bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor + 12.5bp b) 3-mth Libor flat. c) 7% in 00, 8% of Euro Swap rate thereafter. d) Fungible with SFr500m. Plus 269 days accrued interest. f) 9% in 00, 3-mth Athimid -75bp thereafter. l) Long 1st coupon.

LONDON RETAINS TRADING VOLUMES

Liffe stands ground in derivatives

By Edward Luce, Capital Markets Editor

The London International Financial Futures and Options Exchange appears to be winning its battle with Frankfurt and Paris to retain the lion's share of interest rate derivatives business in London after European monetary union.

Trading volumes in euro-denominated interest rate positions on Liffe exceeded equivalent volumes on Matif, the French exchange, and Eurex, the German exchange, when Liffe yesterday offered members the chance to convert their existing D-Mark based positions into euros.

Officials at Liffe had been concerned about the initial success of Euribor, a money market reference rate calculated in Brussels and adopted by Matif and Eurex, which appears to be getting the better of Euro-Libor, the rate set in London. The benchmarks are used as reference lending rates in the inter-bank market and for trading in the over-the-counter derivatives market.

Liffe officials feared the success of Euribor could threaten Liffe's most heavily traded contracts, which were based on Libor.

However, the exchange chose to hedge its bets by offering customers the chance to trade contracts on both Euribor and Euro-Libor. Yesterday the "open interest" – or open positions – on Liffe's Euribor contract rose to 177,000 after members converted their positions in the auction.

This was well in excess of the net open interest positions on Euribor recorded on Matif and Eurex. In addition, daily turnover in Liffe's Euribor contract has this week risen to more than the combined turnover on the two continental exchanges. It reached 42,000 yesterday.

Yesterday's conversion means that more than 1m contracts are still based on Liffe's Libor-based contract which will be converted into euros at the weekend. Officials say this reflects the fact that a large number of non-exchange traded money market contracts were agreed last year before the option of Euribor was made available. Most, therefore, represent hedging positions on Libor-based D-Mark positions agreed last year. These have since been converted into euro-denominated contracts based on Libor.

However, analysts say most money market contracts agreed since the launch of the euro have been based on Euribor. This suggests the volume of Liffe's business will gradually shift from Libor to Euribor over the next few months.

Officials attribute Liffe's initial success to the fact that an overwhelming share of Europe's money markets and over-the-counter derivatives business takes place in London. "Banks and others want to hedge their exposure in the same location," said one official. But few expect Liffe to win back business in the high-turnover market for bond futures from Eurex. Liffe plans to launch a day-time electronic trading platform for its interest rate and bond futures.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 19	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.2795	4.83	+0.01	-0.11	+0.38	-0.39
	08/08	8.750	126.4926	5.20	+0.01	-0.21	+0.38	-0.82
Austria	07/00	5.875	104.1100	2.88	+0.02	-0.11	-0.25	-1.19
	01/08	5.000	108.6100	3.85	-	-0.10	-0.14	-1.33
Belgium	01/00	4.000	101.0600	2.90	-0.01	-0.13	-0.20	-1.15
	03/08	5.750	113.9400	3.91	-0.02	-0.08	-0.12	-1.27
Canada	12/00	5.000	100.9900	4.77	-	-	+0.14	-0.11
	06/08	6.000	107.5500	4.98	+0.02	-0.03	+0.15	-0.38
Denmark	11/00	9.000	109.4700	3.48	-0.03	-0.04	-0.33	-0.78
	11/07	7.000	121.6700	4.02	+0.01	-0.10	-0.21	-1.37
Finland	06/00	4.000	101.4600	2.91	-0.01	-0.15	+0.25	-0.91
	04/08	6.000	116.3760	3.86	-0.02	-0.11	-0.13	-1.28
France	07/00	4.000	101.5400	2.80	-0.01	-0.12	-0.20	-1.10
	10/05	7.750	125.7500	3.41	-0.01	-0.13	-0.12	-1.35
	10/08	8.500	138.4900	3.72	-	-0.12	-0.11	-1.35
	04/29	5.500	114.0700	4.63	-0.02	-0.08	-0.08	-1.02
Germany	06/00	4.000	101.5000	2.87	-0.01	-0.13	-0.25	-0.97
	10/05	6.500	117.7200	3.49	-0.02	-0.13	-0.17	-1.33
	07/08	4.750	108.4100	3.68	-0.03	-0.13	-0.15	-1.40
	01/28	5.625	115.5900	4.64	-0.03	-0.08	-0.11	-1.04
Greece	03/00	9.800	99.6050	10.12	-0.04	+0.01	-0.05	-5.47
	03/08	8.600	115.1355	6.39	-0.05	-0.17	-0.67	-4.54
Ireland	10/01	6.500	108.9700	3.04	-	-0.13	-0.20	-1.71
	03/08	6.000	116.7700	3.87	-0.02	-0.13	-0.12	-1.49
Italy	04/01	4.500	103.1800	2.99	-0.02	-0.15	-0.13	-1.75
	07/03	4.500	105.1100	3.26	-0.02	-0.13	-0.10	-1.71
	05/08	5.000	108.6900	3.87	-0.02	-0.09	-0.06	-1.52
	11/27	6.500	125.9400	4.82	-0.02	-0.02	-0.08	-1.07
Japan	12/00	6.900	111.8640	0.60	+0.04	-0.05	+0.07	+0.01
	12/03	4.100	113.3170	1.29	+0.07	+0.01	+0.32	+0.04
	06/08	1.800	99.6230	1.84	+0.10	+0.07	+0.50	+0.11
	03/18	2.700	100.1390	2.69	+0.11	+0.15	+0.59	+0.13
Netherlands	05/00	9.000	107.6900	2.88	-0.02	-0.12	-0.30	-1.09
	07/08	5.250	111.5500	3.77	-0.02	-0.14	-0.16	-1.26
New Zealand	02/01	8.000	105.7588	4.98	-0.09	-0.24	+0.11	-2.36
	07/09	7.000	111.9140	5.49	-0.01	-0.23	+0.12	-1.21
Norway	05/01	7.000	103.3300*	5.43	+0.01	-0.02	-2.34	+1.21
	01/07	6.750	110.9800	5.05	-0.01	-0.04	-0.32	-0.30
Portugal	03/00	5.375	102.8600	2.99	-0.04	-0.16	-0.18	-1.47
	06/08	5.375	111.3300	3.91	-0.01	-0.07	-0.18	-1.47
Spain	04/00	6.750	104.4300	2.93	+0.01	-0.10	-0.13	-1.53
	01/08	6.000	115.9900	3.87	-0.02	-0.10	-0.16	-1.45
Sweden	05/00	10.250	108.4935	3.31	+0.02	-0.11	-0.20	-1.51
	05/08	6.500	119.0520	4.00	+0.04	-0.09	-0.19	-1.59
Switzerland	06/00	4.500	104.2800	1.13	-	-0.07	-0.09	-0.36
	01/08	4.250	115.4500	2.32	-	-0.05	+0.10	-0.78
UK	11/01	7.000	106.1700	4.62	+0.06	-0.02	-0.19	-2.17
	12/03	6.500	109.5800	4.30	+0.05	-0.03	-0.12	-1.91
	10/08	9.000	137.0100	4.30	+0.01	-0.06	-0.12	-1.78
	12/28	6.000	128.8500	4.28	-0.01	-0.13	-	-1.77
US	09/00	4.500	99.7549	4.65	+0.04	-0.08	+0.12	-0.74
	08/03	5.250	102.4756	4.64	+0.02	-0.12	+0.16	-0.89
	05/08	5.625	106.3547	4.77	-	-0.13	+0.10	-0.77
	08/28	5.500	104.5004	5.20	-	-0.13	+0.10	-0.65

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Jan 19	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.21	+1.54	+0.53	Netherlands	3.80	+0.13	-0.88
Austria	3.97	+0.30	-0.71	New Zealand	5.50	+1.83	+0.82
Belgium	4.00	+0.33	-0.68	Norway	5.08	+1.41	+0.40
Canada	4.98	+1.31	+0.30	Portugal	3.96	+0.29	-0.72
Denmark	4.05	+0.38	-0.63	Spain	3.99	+0.32	-0.69
Finland	3.89	+0.22	-0.79	Sweden	4.02	+0.35	-0.66
France	3.74	+0.07	-0.94	Switzerland	2.42	-1.25	-2.26
Germany	3.67	-	-1.01	UK	4.31	+0.64	-0.37
Greece	6.34	+2.67	+1.66	US	4.68	+1.01	-
Ireland	3.91	+0.24	-0.77				
Italy	3.88	+0.21	-0.80				
Japan	1.87	-1.80	-2.81				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jan 19	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	93.0603	9.84	-0.06	+0.55	+5.07
Poland	07/04	7.125	BBB-	105.5135	5.90	-0.04	-0.22	+1.34
Russia	06/07	10.000	CCC-	25.1000	44.40	-1.40	-5.19	+39.77
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	84.2941	11.65	-0.18	+0.45	+6.57
Brazil	05/27	10.125	B+	64.6462	15.77	-0.15	-0.04	+10.69
Mexico	05/26	11.500	BB	102.9500	11.16	-0.09	+0.27	+6.10
■ ASIA								
China	07/06	7.750	BBB+	103.5981	7.10	-0.07	+0.07	+2.49
Philippines	10/16	8.750	BB+	90.0744	9.95	-0.11	+0.62	+5.12
Thailand	04/07	7.750	BBB-	101.3749	7.52	-0.06	-0.63	+2.89
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	105.1392	5.46	-0.04	-0.68	+0.92
South Africa	10/06	8.375	BB+	92.8392	9.72	-0.02	+0.73	+5.11
Turkey	09/07	10.000	B	91.3176	11.62	-0.14	-0.36	+6.99
■ BRADY BONDS								
Argentina	03/23	5.750	BB	66.9305	9.51	-0.06	+0.82	+4.52
Brazil	04/14	5.000	B+	56.8750	14.58	-0.06	+0.35	+9.79
Mexico	12/19	6.250	BB	75.2539	8.87	-0.10	+0.23	+3.97
Venezuela	03/20	6.750	B+	63.0000	11.41	-0.01	+0.42	+6.49

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.95	112.88	-0.04	113.15	112.75	32,530	91,023

■ LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS Feb	CALLS Mar	CALLS -	PUTS Feb	PUTS Mar	PUTS -
110	2.89	2.98	-	0.01	0.12	-
111	1.90	2.10	-	0.03	0.25	-
112	1.00	1.34	-	0.14	0.49	-
113	0.35	0.76	-	0.48	0.89	-

Est. vol. total, Calls 358 Puts 2,122. Previous day's open int., Calls 14,894 Puts 15,351.

Germany

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.34	117.48	+0.08	117.57	117.15	430,410	391,434

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Feb	CALLS Mar	PUTS Feb	PUTS Mar
11700	0.47	0.82	0.04	0.39
11750	0.15	0.55	0.22	0.62
11800	0.02	0.34	0.59	0.91

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.78	109.76	-0.04	109.86	109.64	122,082	229,758

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		102.37	+0.14			0	1065

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		103.22	+0.27			0	735

Also traded on APT. All Open interest figs. are for previous day

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lire 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.03	115.09	+0.14	115.25	114.98	9377	42935

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lire200m 100ths of 100%

Strike Price	CALLS Feb	CALLS Mar	PUTS Feb	PUTS Mar
11500	0.16	0.51	0.07	0.42
11550	0.01	0.29	0.42	0.70
11600	0	0.15	0.91	1.08

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 5000

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	117.91	118.14	+0.23	118.37	117.86	20,105	20,875

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		108.85	-0.15			0	63
Jun		108.85	-0.15			0	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	119.50	119.31	-0.05	119.77	119.04	40132	105832
Jun		120.11	-0.05			0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
11900	0.51	1.12	1.90	0.20	0.81	0.79
11950	0.24	0.86	1.60	0.43	1.05	0.99
12000	0.10	0.65	1.33	0.79	1.34	1.22

Est. vol. total, Calls 454 Puts 930. Previous day's open int., Calls 8678 Puts 7204

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	126-13	126-03	-0-14	126-15	125-27	292,166	582,390
Jun	125-29	125-21	-0-13	125-31	125-12	8,012	47,249
Sep	125-14	-	-	-	-	179	6,561

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	129.96	130.04		130.36	129.78	2978	na
Jun		129.14				0	na

Euro

■ € BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.45	112.39	+0.23	112.45	112.45	1	207

US CORPORATE BONDS

Jan 18	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	106.4838	5.17	-0.12	-0.01	+5.17
NY Tel	08/03	7.00	A+	103.1161	6.64	-0.18	-0.20	+2.16
CWE	05/08	6.00	BBB	115.5654	5.81	-0.10	-0.02	+1.19
■ FINANCIALS								
GECC	05/07	8.75	AAA	121.5958	5.48	-0.11	-0.01	+0.86
Banc One	08/02	7.25	A	105.6980	5.45	-0.13	+0.07	+5.45
CNA Fin	01/18	6.95	A-	98.1582	7.03	-0.11	-0.12	+1.97
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0676	5.79	-0.05	-0.16	+1.58
Wal Mart	05/02	6.75	AA	105.7189	4.86	-0.10	-	+4.86
Dayton Hud	06/21	9.70	A-	138.0570	6.46	-0.09	-0.13	+1.40
■ AGENCIES								
FHLMC	04/07	7.14	N/A	112.2533	5.28	-0.07	+0.04	+0.66
SLMA	03/00	7.50	N/A	102.7798	4.96	-0.07	-0.04	+0.75
FNMA	02/18	8.95	N/A	139.1697	5.58	-0.12	-0.05	+0.52
FFCB	06/06	8.95	N/A	122.5853	5.22	-0.10	+0.03	+0.60
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.5000	0.00	-	-	-
AK St	12/01	9.13	BB-	105.2500	0.00	-	-	-
Pecalta	06/04	10.75	B-	78.5000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
		One month	-	Two year	4.59
Prime rate	7¾	Two month	-	Three year	4.60
Broker loan rate	6½	Three month	4.43	Five year	4.58
Fed.funds	4¾	Six month	4.46	10-year	4.71
Fed.funds at intervention	-	One year	4.48	30-year	5.15

INTERNATIONAL BONDS

Jan 19	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ $								
EIB	04/07	7.250	AAA	112.2378	5.37	+0.01	+0.24	+0.74
ABN Amro	06/07	7.125	AA-	105.1409	6.31	+0.01	+0.14	+1.68
Quebec	01/07	7.000	A+	107.2779	5.85	+0.01	+0.19	+1.22
Citicorp FRN	02/04	5.312	AA-	94.9214	6.49	+0.01	+0.10	+1.93
■ C$								
Bayer L-Bk	08/04	9.500	AAA	119.2282	5.39	+0.03	+0.20	+0.18
Toronto (M of)	05/04	8.500	AA+	113.6698	5.47	+0.03	+0.20	+0.26
Bell Canada	07/99	10.625	A+	102.3785	5.26	+0.02	+0.18	+1.27
Deutsche B FRN	09/02	5.875	AA+	101.2819	5.48	+0.02	+0.22	+0.36
■ £								
EIB	12/07	7.625	AAA	117.3390	5.14	+0.03	-0.03	+0.73
Dresdner Bk	12/07	7.750	AA-	113.5077	5.78	+0.04	-0.36	+1.35
British Gas	03/00	7.625	A+	102.3167	5.53	+0.01	-0.34	+0.47
Abbey Nat FRN	02/02	7.136	AA	100.0718	4.27	+0.02	-0.49	-0.31
■ SFR								
EIB	01/08	3.750	AAA	103.2908	3.32	-	+0.06	+1.00
Brit Columbia	02/02	3.250	AA	103.9950	1.90	-	+0.02	+0.29
Hydro-Quebec	05/01	6.750	n/a	109.4746	2.51	-	-0.05	+1.08
Gen Elect.	09/01	1.711	n/a	99.6873	1.47	-	-0.05	+0.04
■ YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.1496	0.71	+0.07	+0.14	-0.18
Spain (Kingdom)	03/02	5.750	AA	115.4963	0.78	+0.07	+0.12	-0.11
Cred Foncier	08/02	4.750	A	111.7286	1.34	+0.07	+0.14	+0.45
Italy (Rep of)	07/99	0.461	AA	100.0196	0.39	+0.06	+0.05	+0.04
■ A$								
IBRD (World Bk)	02/08	6.000	AAA	102.9086	5.58	+0.01	+0.30	+0.39
Nw Sth Wales Tr	05/06	6.500	n/a	104.9993	5.65	-	+0.40	+0.55
S. Aus Gov Fin	06/03	7.750	AA	107.8342	5.69	-	+0.35	+0.75
EMAC Aust	05/01	9.000	n/a	107.1307	5.63	-	+0.42	+0.78

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Tue Jan 19	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (17)	122.48	-0.09	2.17	0.97	1203.20	2.42	4.57	33.94
2 5-10 years (11)	172.87	-0.06	1.78	0.68	1344.72	5.92	4.37	29.20
3 10-15 years (7)	188.81	0.08	2.31	0.15	1489.85	8.74	4.37	13.70
4 5-15 years (18)	177.51	-0.01	1.94	0.52	1380.61	6.87	4.37	42.90
5 Over 15 years (4)	235.62	0.21	2.21	0.00	1601.78	11.84	4.38	22.37
6 Irredeemables (4)	332.21	0.37	2.95	0.00	1928.03	23.49	4.53	0.79
7 All stocks (43)	168.24	0.01	2.17	0.39	1363.64	7.00	4.40	100.00

UK Indices

Index-linked	Tue Jan 19	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	226.12	0.04	1.36	0.00	1174.26	15.34
2 Over 5 years (9)	256.31	-0.01	1.11	1.33	1387.90	84.66
3 5-15 years (5)	241.26	0.00	1.62	0.50	1297.85	43.54
4 Over 15 years (4)	289.77	-0.03	0.47	2.29	1469.47	41.12
5 All stocks (11)	250.68	0.00	1.15	1.10	1358.26	100.00

Yield indices	Jan 19	Jan 18	Yr ago
5 yrs	4.41	4.38	6.38
10 yrs	4.35	4.36	6.12
15 yrs	4.38	4.39	6.08
20 yrs	4.39	4.41	6.08

Yield indices	Jan 19	Jan 18	Yr ago
Irred †	4.53	4.55	6.19
Med. 15 yrs	4.40	4.41	6.09
High 15 yrs	4.53	4.55	6.19

Real yield	Inflation 0% Jan 19	Inflation 0% Dur yrs	Inflation 0% Jan 18	Inflation 0% Yr ago	Inflation 5% Jan 19	Inflation 5% Dur yrs	Inflation 5% Jan 18	Inflation 5% Yr ago
Up to 5 yrs	3.04	3.38	3.05	3.83	2.20	3.40	2.33	3.00
Over 5 yrs	2.17	13.12	2.17	3.24	1.96	13.23	1.99	3.01
5-15 yrs	2.22	9.82	2.22	3.34	1.93	9.88	1.97	3.00
Over 15 yrs	2.15	16.79	2.14	3.20	1.98	16.90	2.00	3.02
All Stocks	2.21	11.54	2.21	3.28	1.97	11.68	2.00	3.01

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jan 19	Jan 18	Jan 15	Jan 14	Jan 13	Yr ago	High*	Low*
Govt. Secs. (UK)	116.13	116.10	116.12	116.23	115.98	102.96	118.45	93.31
Fixed Interest	157.24	157.06	157.43	157.50	157.27	138.48	157.84	115.32

© FTSE International Ltd 1999. All rights reserved. * for 1998/99. Government Securities high since compilation: 127.40 (1/9/35), low 49.18 (1/3/75). Fixed Interest high since compilation: 151.02 (9/18/98), low 50.33 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible

هكذا من الأصل

CURRENCIES & MONEY

Contagion fears rise as Real slumps

MARKETS REPORT

By Alan Beattie

The Brazilian bears seemed to be in the ascendant yesterday as the currency remained mired.

An increase late on Monday in the Brazilian short term interest rate – in effect from 29 per cent to 41 per cent – failed to arrest the slide in the Real.

The troubled currency closed at R$1.58 against the dollar, down from R$1.53 the day before. The slide, which began in the US on Monday night, briefly pushed the Real down to the R$1.60 level.

Despite the assertion by Pedro Malan, the Brazilian finance minister, that he was not disappointed with the market's reaction to the interest rate rise, policymakers in Brazil and the International Monetary Fund must be wondering whether Brazil can avoid a damaging recession which may drag down the economies of neighbouring countries.

"We have not seen the end of the problems for Brazil," said Stewart Newnham, currency strategist at Commerzbank in London. "The crisis will deepen in Brazil itself and widen to affect most of Latin America."

Mr Newnham said that the Argentine currency board, which has often been cited as the next domino of Latin American devaluation, was likely to hold, with the shock absorbed by the real economy.

"But the markets can see much easier kills than Argentina," he added. "The Chilean and Colombian pesos are now at the lows they reached during the crisis in October. And Ecuador has now raised its short term interest rate to 180 per cent."

Mr Newnham said that the Mexican peso would also come under pressure. "Given Mexico's current account deficit, the peso is clearly overvalued. It has risen slightly in the past couple of days, but it is just as vulnerable as the Real."

■ Sterling rose yesterday as higher seasonal food prices pushed RPIX inflation above its target. The pound closed up at £0.70, from £0.702, against the euro.

There was a strong consensus in the market that inflation would drop below the government's target of 2.5 per cent in December for the first time since the Bank of England was given responsibility for monetary policy in May 1997.

But higher than expected food prices, largely because of the effects of heavy rain, helped push inflation to 2.6 per cent.

"In economic terms there was not a lot of news in the data," said Nick Parsons of Paribas in London. "Eddie George is well connected but even he can't control the weather," he added.

But Mr Parsons said that the rise in sterling could be explained by the state of the market before the data were published. "The market was almost unanimous in the belief that inflation would fall below the target," he said.

"So the market was short of sterling and there was a scramble to cover those positions," he added.

■ Renewed signs that net capital flows out of Japan were likely to slow pushed the dollar down against the yen in European trading.

A poorly received auction of Japanese government bonds (JGBs) raised fears that further risk aversion in Japanese investors was causing them to keep their money at home, but in safer short-dated assets.

The dollar rose in late Asian trading, perhaps suggesting that analysts in Japan disagreed with their European colleagues about the currency implications of the weakness in JGB prices. Option-related buying may also have helped the rise.

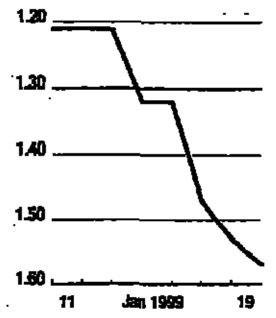
At one point, the dollar approached the Y115 level against the Japanese currency, as it had during the Asian trading session on Monday. But it fell rapidly in Europe as traders marked it down below Y114. At the end of London trading yesterday, it was at Y113.7.

Currency analysts said that the yen had the potential to strengthen further as the seasonal repatriation of yen towards the end of the financial year picked up.

"The repatriation flows can start to build up as soon as February," said Jeremy Hawkins, chief economist at Bank of America in London.

Brazilian real

Against the US dollar (R$ per US$)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jan 19	Latest	Prev. close
£ spot	1.6560	1.6505
1 mth	1.6546	1.6490
3 mth	1.6531	1.6475
1 yr	1.6508	1.6450

■ OTHER CURRENCIES

Jan 19	£	$
Czech Rp	50.9785 - 51.0580	30.7470 - 30.7770
Hungary	357.249 - 357.797	215.470 - 215.670
Iran	4977.00 - 4974.00	3000.00 - 3000.00
Kuwait	0.5010 - 0.5018	0.3022 - 0.3025
Peru	5.3835 - 5.3951	3.2470 - 3.2520
Poland	5.8395 - 5.8546	3.5220 - 3.5290
Russia	38.1508 - 38.4888	23.0100 - 23.2000
U.A.E.	6.0895 - 6.0938	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

INTERNATIONAL CURRENCY RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94250	0.235	0.590	0.825	0.035	0.040	0.070
94375	0.145			0.070		
94500	0.080	0.385	0.625	0.130	0.085	0.120
94625	0.040			0.215		
94750	0.020	0.225	0.450	0.320	0.175	0.195
94875	0.010			0.435		

Est. vol. total, Calls 20403 Puts 37081 Previous day's open int., Calls 489553 Puts 496941

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	8.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00		
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.25		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.25	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.00	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
97125	0.040			0.125		
97250	0.020	0.100	0.165	0.230	0.180	0.190
97375	0.010			0.345		

Est. vol. total, Calls 0 Puts 0 Previous day's open int., Calls 2033 Puts 8478

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Financial Times Surveys

Barcelona

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COMMODITIES & AGRICULTURE

FARMING PRICES RISE ON TIGHT SUPPLIES

Wet weather hits potato harvesting

By Paul Solman

Potato producers and consumers are counting the cost as months of wet weather in the UK and Europe have cut supplies and pushed up prices.

Average farm prices are now £179 ($296) a tonne against £78 at the same time last year, according to the British Potato Council, and all sectors of the industry are feeling the pinch.

Farmers, unable to get their remaining crops out of the waterlogged ground, are facing losses, while frozen chip manufacturers, supermarkets and fish and chip shops report having to either absorb the higher costs of potatoes or raise prices.

"Fields are too wet to walk on, never mind get potatoes out of the ground," said Richard Watson-Jones, a farmer and potato spokesman for the National Farmers Union. "Farmers could lose their crop if they don't get it out soon."

Mr Watson-Jones said 5 per cent of the current UK crop – about 255,000 tonnes – remained in the ground, leading to a shortage in the market.

"Normally the deficit would be made up by imports from Europe, but areas such as the Netherlands have also suffered from wet weather," he said.

Faced with higher raw materials prices, potato products manufacturers such as McCain Foods, the brand-name frozen foods producer, are finding their margins squeezed.

"Our priority is to maintain quality and continuity of supply. But the cost of potatoes has increased significantly," McCain said yesterday.

Safeway said heavy rainfall in much of northern Europe had reduced the availability of quality potatoes. Prices had been squeezed from last year, though the supermarket would not comment on whether it had raised prices.

Tesco, the supermarket chain, said it had raised prices but had managed to absorb about 20 per cent of the extra costs.

Fish and chip shops have also been hit.

"It has been a devastating blow to see our main commodity double in price in a few weeks," said Michael Pili, president of the National Federation of Fish Friers, which represents the UK fish and chip shop trade.

"Four to six weeks ago we were paying £3-£4 a bag for potatoes. Now £7-£8."

As a result, many chip shops have raised prices by 5p-10p a regular sized portion, their first price rise since 1995, Mr Pili said.

Higher potato prices are also reflected on the futures market. The benchmark March potato futures contract on the London International Financial Futures and Options Exchange surged to more than £310 in November after the wet weather first hit the crops in the UK and Europe, against £135 the month before.

It is now £250 a tonne compared with about £90 a year ago.

Mr Watson-Jones said the outlook remained difficult. "If the rest of the month is dry, farmers should be able to get their crops out of the ground. If not, the situation is likely to remain difficult until June, when the new crop comes in."

Highland Valley closure keeps metals firm

MARKETS REPORT

By Gillian O'Connor, Paul Solman and Sheila McNulty

The announcement on Monday night that Highland Valley Copper is to close its 170,000 tonnes per year copper mine in British Columbia kept prices of all base metals firm on the London Metal Exchange yesterday.

Traders have been waiting eagerly for further production cuts for months, because forecasts of a surplus have been dragging the copper price down. Assuming the Highland closure goes ahead on May 15 as scheduled – 16 weeks notice is legally required – analysts point out only 80,000 to 90,000 tonnes production will be lost in 1999. This is not enough on its own to have a significant effect on the forecast surplus of refined copper, estimated at anywhere between 400,000 tonnes and 600,000 tonnes.

"Much more is still needed if the market is to return to balance, let alone deficit", said Jim Lennon of Macquarie.

However, loss of Highland Valley's production could aggravate the existing shortage of copper concentrates – the material treated and refined by copper smelters. This is bad news for independent smelters, notably the Japanese, who buy in all their material from producers such as Highland.

The massive increase in London Metal Exchange aluminium stocks – the largest for nearly two years – hardly affected its price.

Crude oil prices drifted higher in London with little fundamental market news. March Brent blend on the International Petroleum Exchange was $11.12 a barrel in late trading against Monday's close of $10.71. Traders will be looking to the American Petroleum Institute's weekly report, due today, for an indication of US stocks.

Meanwhile, Mahathir Mohammad, Malaysia's prime minister, indicated his country might stop producing oil if prices continued to fall. Malaysian exports earned M$7.26bn in 1998.

Sugar prices fell on the London International Financial Futures and Options Exchange, the March contract standing at $237.60 a tonne in late trading against Monday's close of $246.70. Brazil's recent currency devaluation remains a bearish factor since the country is one the world's largest sugar producers.

India sees its opportunity as medicine returns to roots

Commercial demand for herbal remedies means the production of medicinal plants must be regulated, writes **Kunal Bose**

India has been using medicines derived from plant extracts for more than 5,000 years and practitioners of traditional medicine look after the health of almost three out of four of the country's population.

As well as thousands of village-based suppliers of herbal medicines, India has more than 400,000 licensed medical practitioners of the codified systems of indigenous medicines.

In China, herbal medicines hold about 35 per cent of the drug market and in Hong Kong most people swear by traditional medical practices.

Now, the demand for herbal medicines is spreading beyond Asia. In the European Union demand has grown at more than 5 per cent a year since 1990. An Exin Bank of India study estimates world trade in medicinal plants at more than $60bn a year.

"China, India and Brazil are the principal suppliers of medicinal plants to the world," says Dr Ronald Watkins, chairman of Plant Science International of the UK. "As herbal medicines become more and more popular, many pharmaceutical companies in the west are developing drugs based on natural plant materials." Dr Watkins says there is growing concern about side-effects of synthetic drugs. "There is an increasing recognition in the west of the genuine pharmacological value of the traditional plant-based medicines. This is leading many pharmaceutical groups in the US and Europe to develop and seek clinical registration of medicines based on plant materials," he says.

He cites taxol, a medicine derived from the yew tree, widely used in treating cancer, especially ovarian cancer. "The next few years will see the registration of many more drugs based on plants."

For a sustainable campaign to make medicines from plant extracts manufacturers must be able to get regular supplies from the same source. "Since the clinical trial of a medicine is based on a plant grown in a particular geographical location, the drug registration authorities make it a condition that the supply will always come from the same source. This offers a big challenge to the medicinal plant growing countries and the trade," says Dr Watkins.

However, brokers and merchants buy from several sources, leading to variation in quality. In India alone, more than 7,500 species of plants are used in human and animal healthcare.

"Not less than 75 per cent of medicinal plant collection is from the wild and this inevitably leads to the destruction of biodiversity and genetic stocks," said one trade official.

The Exin Bank study says more than 500,000 tonnes of dry raw materials are "indiscriminately, and mostly destructively, collected from the wild each year".

This leads to the deforestation of 165,000 ha every year. Nearly 100 medicinal plants are facing extinction in India and the government has banned formulations derived from 84 plants.

Since most medicinal plants grow in the wild and are vulnerable to destructive harvesting, it is seen as essential to regulate their collection. The bank's study suggests legislation to regulate internal and external trade in medicinal plants.

The Chiang Mai International Consultation, an international association to protect the environment and ensure the survival of medicinal plants, has underpinned the "increasing and unacceptable loss of medicinal plants due to habitat destruction and unsustainable harvesting practices". It also cautions that the disruption of indigenous cultures will snuff out the possibility of identifying new medicinal plants.

According to the Manila-based Biodiversity Conservation Network, there is a danger of 25 per cent of all plant species becoming extinct in the next 50 years because of failures of policies.

"India is the only country in the world where every botanical species known to mankind is to be found," says Dr Watkins. "But for it to raise the export of medicinal plants in a big way, it must encourage sustainable commercial scale cultivation. India must also get the quality of medicinal plants right, like China."

However, China, which has the largest share of the world market, has become an erratic supplier. "This provides India with a great opportunity," says Dr Watkins. "Biopharm of the UK has formed an alliance with Rallis of India for the cultivation of some medicinal plants. I hope more such alliances are formed."

Commercial cultivation of medicinal plants is not easy in the absence of standardised agronomic practices. High-quality planting materials are also difficult to find.

Financial and technical support from foreign companies will help sustainable commercial cultivation of medicinal plants in India.

While the government will have to provide easy credit and tax incentives to the groups planning to participate, the farmers must be assured of minimum support prices.

China, which has the largest share of the world medicinal market, has become an erratic supplier AP

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

Precious Metals continued

GRAINS AND OIL SEEDS

SOFTS

MEAT AND LIVESTOCK

ENERGY

PRECIOUS METALS

PULP AND PAPER

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa – The market opened to a good general demand but eased later in the Sale at progressively lower rates. Brighter and Medium BP1's fell by about 5 to 15 cents. Lower Mediums and Plainer sorts were easier by about 5 to 10 cents. A few selected lines of Best PF1's were dearer but other Brighter and Mediums depreciated by 10 to 25 cents and sometimes more towards the close. Lower Mediums declined by about 10 to 20 cents with Plainer sorts easier by about 5 to 15 cents. Lower Mediums depreciated by 10 to 20 cents with Plainer sorts 10 to 15 cents cheaper.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 19	Jan 18	month ago	year ago
1501.0	1505.9	1487.6	1744.3

■ CRB Futures (Base: 1967 = 100)

Jan 18	Jan 15	month ago	year ago
192.74	193.62	–	–

■ GSCI Spot (Base: 1970 = 100)

Jan 15	Jan 14	month ago	year ago
135.08	135.08	133.43	169.84

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+23,725	to	685,225
Aluminium alloy	+240	to	85060
Copper	+1,900	to	607,175
Lead	–75	to	106,400
Nickel	+5	to	65,268
Zinc	–950	to	320,050
Tin	–85	to	7,930

JOTTER PAD

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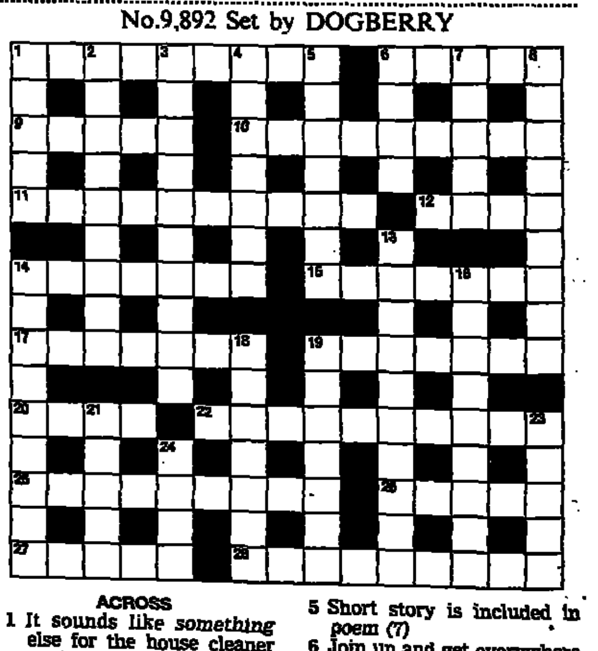
CROSSWORD

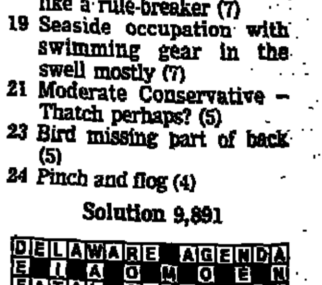
No.9,892 Set by DOGBERRY



ACROSS
1 It sounds like something else for the house cleaner to sharpen (9)
6 Narrow recorder (5)
9 Term of endearment for model wearing ring (5)
10 Prone to fits after mixing tipple with ice (9)
11 Bound to include university in greeting (10)
12 Endless gleam of bone (4)
14 Building where virgin carried child (7)
15 Pastoral footwear in the European Union and Spain (7)
17 Dubious character's back muscles twitch (7)
19 Lay out clause before the king (7)
20 Cut the torture (4)
22 Stand unsteadily outside vehicle on four feet (10)
25 Brand of western food (9)
26 Beginnings of glumness and source of bile say (5)
27 Fastener's second role-reversal (5)
28 Top-notch players out of their heads on Ecstasy (4-5)

DOWN
1 Prospects of finding additive in brewer's ingredients (5)
2 Patterned fabric for China girl (oriental) (9)
3 Old German state and American one showing classical influence (10)
4 Frankly tipsy leader comes in too (7)
5 Short story is included in poem (7)
6 Join up and get everywhere (4)
7 Mend territory (5)
8 Yarn-spinner to tour France avoiding the capital (9)
13 Need scholar and soldier in olden times to supply bad spelling? (5-5)
14 Doubts that atmospheric moisture causes corrosion (9)
16 Man in prison camp turned up a piece of scripture (9)
18 Great runner but sounds like a rule-breaker (7)
19 Seaside occupation with swimming gear in the swell mostly (7)
21 Moderate Conservative – Thatch perhaps? (5)
23 Bird missing part of back (5)
24 Pinch and flog (4)

Solution 9,891



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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Barclays International Funds - Contd.

Gartmore Fund Managers Intl Ltd (z)

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngs. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

Eagle Star Global SICAV (u)

Fidelity Funds (u)

Liberty Newport World Portfolio (u)

Lloyds Bank Luxembourg

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Banque Internationale A Luxembourg - Contd.

Kredietbank SA Luxembourg - Contd.

OFFSHORE INSURANCES

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]

CMI Ins Co Ltd/Clerical Med Life - Contd.

Eagle Star Intl Life

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Old Mutual International (Ireland) Ltd

Old Mutual International (Isle of Man) Ltd

PanEuroLife societe anonyme

Premier Life

Royal & Sun Alliance Intl Financial Srvs

Alpha Fund Management Ltd

The American Trust Bank

Arrais Capital Advisors LLC

Ardent Investment Management Limited

Argent Fund Management Limited

Arisaig Partners (BVI) Ltd

Aristocrat Capital Management Ltd

Arnhold and S. Bleichroeder, Inc

Asia Debt Management Hong Kong Ltd

Asia Pacific Securities Corp Ltd

Atlantico Investment Ltd

Atlantic Investment Management, Inc

Atlantis Fund Management (Guernsey) Ltd

Aurum Funds

Dresdner RCM Global Investors (UK) Ltd

Egerton European Dollar Fund Ltd

Egerton European Equity Fund Ltd

Emerging Markets Management

Endstone Trust SA

The Enhanced Profit Fund Ltd

Giano Capital Limited

The Glenmore Property Fund Ltd

Global Asset Management

Iksinger Asset Management

INVESCO Asset Management

INVESCO France

Montgomery Emerg Communications Fd Ltd

Montpellier Asset Management Ltd

Moore Global Investment

Morgan Stanley/BLL Global Allocation Fd Ltd

Morgan Stanley Emerging Markets Income

Schroder Investment Mgmt (Singapore) Ltd

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The Environmental Investment Co Ltd

Eragmann & Co Ltd

Ermitage Group

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

Financial Times Surveys

England's Central South Coast Region

Wednesday April 14

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email: haj.haffejee@FT.com

FINANCIAL TIMES
No FT, no comment.

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Aberdeen Eng Asia	♣	23½	—	*30½	13½	–	28.9	18.7
Warrants		0½	—	*1¼	0¼	–	–	–
Atlantis Japan Gwth Fd		245¾	+5¼	282	158	–	313.1	21.5
Warrants		5¾	—	41	1¾	–	–	–
Baring Emrg Euro	♣	90¾	+¾	118	55	–	112.1	19.1
Warrants		44½	+¼	67½	29¾	–	–	–
Brazilian IT	N	34¾	—	61¾	19¼	3.2	–	–
Warrants		8¾	—	33½	7	–	–	–
Central Euro Gwth	♣	41¾	—	68¼	26¼	–	54.1	22.8
Warrants		0½	—	11¾	0½	–	–	–
East German		11¾	—	13	5½	–	–	–
Egypt Trust $	?	642¾	+½	875	567½	1.3	21.5	47.7
F&C Latin American $	♣	61¼	−1½	128¼	46	–	98.8	38.1
Warrants		28¼	−½	75	16¾	–	–	–
1st Russian Frontiers $	♣	182½	—	1100	180	–	435.9	58.1
Warrants		45	—	588	30	–	–	–
Warrants II		32½	+1½	525	15	–	–	–
Five Arrows Chile		92¼	−1	111½	90½	–	123.9	25.5
Warrants		1	—	18¾	0½	–	–	–
Govett Asian Smlr	♣	69	−½	102	31	1.0	100.5	31.3
Kiwibas Smlr Asia Cos	♣	28¼xd	−¼	38½	15½	0.6	39.0	27.6
Warrants		3	−¼	7½	1½	–	–	–
Indonesia Fund		128¼	−½	145	120	–	–	–
Warrants		7¼	—	*23	5	–	–	–
Israel Fund $		48¼	+¼	83¼	29¾	–	58.8	20.5
Korea-Europe $	♣	208	+2¼	222½	95½	0.6	260.2	20.1
Korea Liberal $		120½	−½	131	73½	–	182.4	33.9
Warrants		13	−¼	18¼	5	–	–	–
Lazard Birla India	♣	29½	+¼	39¼	22½	–	–	–
Warrants		4¾	—	8	2¼	–	–	–
Schroder Korea Fd $	♣	361¾	−1½	378¼	141¾	–	–	–
Warrants $		3¼	—	16¾	2¼	–	–	–

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

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PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

[illegible]

AIM - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
QA Group	h	172½	...	*208	141¼	–	3.4	–
VDC	♣	123½	−1½	235	123½	–	5.6	10.6
VFG	♣	48	—	64½	41½	–	2.7	9.6
VI		19½	—	39½	15½	–	–	10.5
Victory Corpn	♣	9	—	42½	8½	–	–	–
WML	♣	35½	—	85½	27½	–	–	34.8
Weather Action		52½	—	97½	52½	–	–	–
Weeks Group	♣	3¼	—	5	3¼	–	6.2	9.6
West 175 Ents	♣	80	−5	87	45	–	–	–
West Bromwich Albion		£115	—	£145	£95	–	–	13.3
Western Select	♣Z	8½	—	13	7¼	–	3.7	19.8
Westmount Energy	♣	17½	—	300	17½	–	–	Φ
Winchester		58	—	84½	55½	–	–	34.0
World Telecom	♣	57	—	288	55	–	–	–
Xavier Computer		14¼	−¼	15	5½	–	–	13.6
Yeoman		58½	—	66½	53½	–	–	Φ

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ψ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
f Dividend/yield adjusted for complex issue
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
r Dividend yield excludes a special payment.
t Indicated dividend yield: p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield: p/e based on previous year's earnings
v Dividend/yield include amount payable after 6/4/99
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99
H Assumed yield after pending scrip and/or rights issue.
K Yield based on prospectus or other official estimates for 1999
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings
M Yield based on prospectus or other official estimates for 1997-98
N Dividend is paid in whole or part by a FID (Foreign Income Dividend)
P Dividend/yield adjusted for consolidation or share split
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend
xc ex scrip issue
xr ex rights
xa ex all
xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Inflation worries and profit-taking upset shares

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

After two consecutive three-figure gains in the FTSE 100 totalling *more* than 300 points or better than 5 per cent, London's *equity market ran into a* flurry of profit-taking yesterday, leaving all the main *FTSE indices lower on* the day.

And there was additional downside pressure being exerted on the stock market because of a batch of slightly worrying economic news on inflation and the public finances.

These were interpreted as diminishing the chances of another substantial reduction in UK interest rates after the next meeting of the *Bank of England's monetary* policy committee, scheduled for February 4.

The leaders managed to finish the session above their lowest levels of the day – but only just – *thanks to* continuing speculation about more takeover bids in the pipeline.

An early secure-looking performance by Wall Street which was closed on Monday for Martin Luther King day, subsequently gave way and saw the Dow Jones Industrial Average facing a three-figure decline, having been up as much as 60 points shortly after the opening.

The FTSE 100 index ended another volatile session a net 96.3 easier at 6,027.6, hav*ing hit a session low of* 6,016.4. The FTSE 250 settled 29.2 off at 4,874.6, while the *FTSE SmallCap was finally* 3.1 off at 2,102.9.

Confirmation of the long-awaited, much-heralded link-up between British Aerospace and GEC, the start of the expected restructuring of European defence industries, ironically added to the market's woes.

BAe and GEC shares fell sharply as investors booked some of the big gains accrued in the run-up to the deal, and there was talk, too, that Merrill Lynch, one of the world's most powerful *stockbrokers, had told its cli*ents BAe had overpaid for GEC's Marconi business, *adding to the downside pres*sure on Aerospace shares.

The market kicked off the session on a dull note, anticipating the subsequent profit-taking, and fell away quite sharply during the morning with the disappointing public sector net cash requirement and inflation data accelerating the selling pressure.

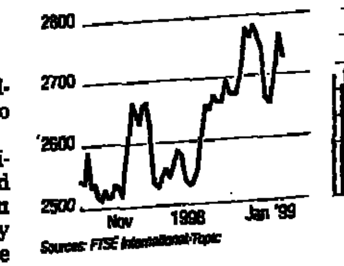
Core inflation in December rose above the government's 2.5 per cent target for the first time in four months, nudging ahead to 2.6 per *cent year on year*, unnerving some of the interest rate optimists who had been *looking for a 50 basis points* cut in UK rates next month.

Dealers said another 25 basis point cut, *matching* this month's reduction, was now much more likely, while the pessimists adopted the view that the monetary policy committee might opt to leave rates on hold.

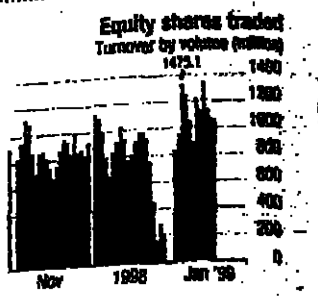
The market began to stabilise around lunchtime and rallied for a 14-point gain before falling away sharply in line with Wall Street. The early weakness was particularly evident in the telecoms arena which erupted on Monday in the wake of Vodafone's successful deal with AirTouch of the US.

Turnover in equities remained at relatively high levels, eventually reaching 1.08bn shares at the 6pm cut-off point, the sixth consecu*tive 1bn-plus figure.*

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	6027.6	-96.3
FTSE 250	4874.6	-29.2
FTSE 350	2832.1	-41.0
FTSE All-Share	2730.74	-37.95
FTSE All-Share yield	2.87	2.83

FT 30	3490.5	-67.3
FTSE Non-Fins p/e	23.81	24.18
FTSE 100 Fut Mar	6027.0	-126.0
10 yr Gilt yield	4.42	4.42
Long gilt/equity yld ratio	1.53	1.55

Best performing sectors

1 Transport .... +0.8
2 Life Assurance .... +0.1
3 Paper, Pckg & Printing .... -0.0
4 Electricity .... -0.0
5 Construction .... -0.2

Worst performing sectors

1 Oil Exploration & Prod .... -4.0
2 Electronic & Elect Equip .... -3.4
3 Engineering .... -3.4
4 Building Matls & Merchs .... -2.9
5 Chemicals .... -2.7

Borneo feels oil pressure

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

British-Borneo led hard-pressed exploration and production stocks lower as the *underlying oil price failed to* offer relief.

The shares were the worst *performers in the FTSE 250* index, losing 10½ at 102p, with dealers citing unspeci*fic speculation.*

One said: "There are bull and bear stories around at *the moment. The bear case* is that they have bitten off more than they can chew with Hardy. *The bull case is* a merger with a US independent that will be hugely value enhancing. *Nobody* has any idea, but the company is noticeably coy at the *moment."*

The oil price, meanwhile, was trending lower with *March Brent trading below* the February blend and no relief expected until at least *the next Opec meeting on* March 23.

Other e&p stocks affected included *Monument Oil &* Gas, down 2 at 35½p, and Cairn Energy, down 6 at *68½p.*

Further appreciation of the property development *deal from Railtrack saw the* stock end the day as the best FTSE 100 performer. It gained almost 5 per cent, or 67 to £15.37.

The stock reached a high of £17.68 as investors rushed for defensive stocks in the face of the market turmoil in October, but since then has underperformed the FTSE 100 by more than 30 per cent.

Yesterday's buying was said to have been driven by hopes that Railtrack would announce further deals involving development of its property portfolio, while some institutional investors are known to be under*weight the stock.*

P&O also benefited from reconsideration of its recent underperformance and rose 14 to 629p. Sentiment in the stock was also believed to have been helped by recent strength in the US stock market, which is said by some analysts to be a proxy for strength in the US cruise market.

Stagecoach gained 10 to 250¼p following favourable comment on its £181m Hong Kong bus acquisition announced on Monday.

British Aerospace ended the day the worst performer in the FTSE 100. The stock lost almost 14 per cent or 68 *to 425¼p as analysts queried* the price paid for GEC's Marconi subsidiary.

GEC also suffered, falling more than 5 per cent or 31 to 546½p. Volume in both was *high, with BAe seeing* 35m dealt and GEC 14m. The deal was thought to be earnings-*neutral in the first year*, while earnings per share would be enhanced by about 17 per cent in year three.

Fears that BAe had overpaid were said to be behind brokers shifting recommendations from "buy" to "hold", while there were sug*gestions the Marconi deal* could act as a block on further integration with other European defence groups.

There was talk one broker had advised clients to buy GEC up to 650p.

Telecoms group Energis moved swiftly to the top of *the list of the sector's bid* targets after National Grid announced plans to reduce its stake to 48.7 per cent from just over 74 per cent.

There was talk that the *group could soon enter a* strategic alliance with a rival telecoms company – and Orange was one name mentioned by several market specialists. National Grid *has indicated its preferred* long-term strategy for Ener*gis is to seek a strategic* international telecoms partner for the company over the *next three to five years.*

Dealers said buyers were also attracted by the pros*pect of the group entering* the FTSE 100.

The shares jumped 132½ to £16.55. National Grid appreciated 17½ to 545½p. Profit-taking after the strong run left Orange trailing 71 to £10.00¼ in heavy trade.

Strong selling was also seen in Vodafone Group. By the close turnover had soared to 81m as the shares declined 102½ to £11.23m.

Carlton Communications resisted the market slide for much of the day with help from ABN Amro. The broker raised its valuation for the contribution of the digital element to the company's valuation from 39p a share to 54p, reiterating a "buy" recommendation.

BSkyB falls

ABN stressed its "overvalued" stance on BSkyB. Carlton, which announced it was buying more than 300 films and television movies and more than 5,000 hours of programmes from Universal *Studios for $150m, was up 6* at best but closed down 6 at 536p. BSkyB fell 6½ to 427½.

Reuters Group came off the boil, falling 15½ to 780, as some traders noted the *news and information* group's phenomenal rise over recent weeks. They *pointed out that over the* past quarter the stock had outperformed the FTSE All-Share index by 57 per cent.

Catering and pubs company Compass Group resisted the poor market trend and appreciated 13 to 797p. Sutherlands initiated coverage of the stock with a *"buy" recommendation.*

In a note to clients, the broker said: "With the *group's acquisition strategy* delivering higher-than-anticipated returns, contract *renewals* reaching 96 per cent, the potential global market worth over £100bn *and* a highly innovative management team in place, Compass Group deserves to be highly rated."

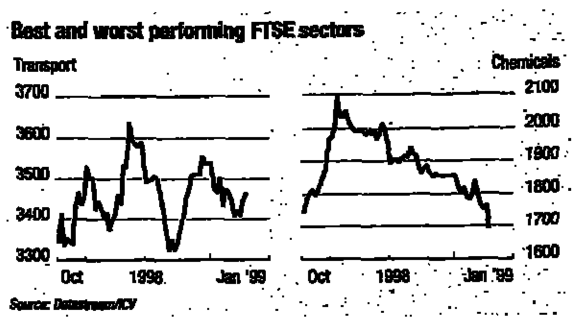
Zeneca, due to unveil its merger offer document for its tie-up with Astra of Sweden this week, rose 3 to £27.68. Consolidation enthusiasm outweighed approval by the US Food and Drug Administration of a generic rival to Zeneca's Diprivan anaesthetic treatment.

Hanson was off 27 at 421½p after it said it wanted to grow by investment and acquisition, mainly in the UK and US markets. The company is seen as a potential leader of the consolidation in the European building materials market that some analysts see as inevitable. The company also said it would seek opportunities for acquisitions in the Asia-Pacific region.

LucasVarity rose a penny to 226p on hopes that hints from Federal-Mogul of the US that it was looking for acquisitions might lead to a bid for the UK engineering group.

Bid speculation around *retailer House of Fraser* helped the shares jump 15½ to 88p but a profits warning *from Body Shop Interna*tional left the shares 4 lighter at 85p. Relief that the *decline* in sales at retailer Debenhams was not even worse helped attract buyers. *It jumped 10½ to 350½p.*

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Jan 19	Jan 18	Jan 15	Jan 14	Jan 13	Yr ago	*High	*Low
FT 30	3490.5	3557.8	3489.1	3439.3	3491.1	3297.4	4004.9	2790.6
Ord. div. yield	2.94	2.89	2.96	3.01	2.96	3.35	4.22	2.72
P/E ratio net	22.84	23.23	22.66	22.31	22.63	21.05	25.41	15.80
P/E ratio nil	22.74	23.14	22.57	22.22	22.53	20.87	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3557.8	3535.2	3518.7	3546.9	3541.2	3543.0	3542.7	3509.2	3557.8	3490.5

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STOCK MARKET TRADING DATA

	Jan 19	Jan 18	Jan 15	Jan 14	Jan 13	Yr ago
SEAQ bargains	82,095	87,501	90,460	80,986	86,728	68,959
Equity turnover (£m)†	-	5475.2	4021.0	4859.6	4651.3	2570.6
Equity bargains†	-	*76,213*	*88,547*	*67,173*	*69,849*	*56,774*
Shares traded (m)†	-	1392.5	953.0	1148.0	1030.2	768.5
Total market bargains‡	-	89,020	80,078	80,659	85,271	-
Total turnover (£m)‡	-	6498.8	5065.9	5882.7	5707.7	-
Total shrs traded (m)‡	*1071.7	*1577.2*	*1173.3*	*1357.6*	*1215.7*	-
Tradepoint turnover (£m)	32.4	24.0	24.0	34.8	40.9	18.6
Tradepoint shrs traded(m)	10.0	7.8	10.6	11.2	13.2	5.2

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	538	Total Highs	58	Total contracts	33,429
Total Falls	880	Total Lows	50	Calls	16,291
Same	1,463			Puts	17,138

Jan 19 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6105.0	6027.0	-126.0	6166.0	5995.0	23170	172892
Jun	6111.0	6068.0	-125.0	6167.0	6111.0	229	15540
Sep	*6210.5*	6113.0	-125.0	6210.5	6210.5	100	750

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		4875.0	-28.0			0	6933
Jun		4892.0	-28.0			0	0

■ FTSE 100 INDEX OPTION (LIFFE) (*6027) £10 per full index point — Jan 19

	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P
Feb	383	163	319	178	290½	199½	282	228	233½	240½	205	262	189½	288½	169	317
Mar	439	283	469	283½	378½	303½	345½	324	315½	344	287	364½	260	385½	238	416½
Apr	588	324½	480	348	453	371	425½	394½	398½	418½	372	442½	345½	467	328	497½
May	593½	399	602½	417	631½	435½	561	454	478½	473½	440	492½	410	513	390½	538
Jun†			624	488			582	507½			500½	548			442½	592½

Calls 722 Puts 1,127

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Jan 19

	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P
Feb	325½	164½	294	182½	263½	202	236½	225	207	245	179½	267	155½	292½	132½	319½
Mar	417	266½	385½	284½	356	304½	326	324	299	346½	278½	370½	245	391½	221½	417½
Apr	484	329½	484	348½	435	369	407	390½	380½	413	354½	436½	330	461	308½	487
Jun			609½	470			548	507			493½	549			442	595½
Sept			754½	573½			695½	611			644½	656			593	708½

Calls 5,978 Puts 7,248 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div cov.	Grs yld	P/E net
-	F.P.	15.0	100	95	AIM VCT	100		-	-	-	-
-	F.P.	-	95½	91½	Abbey Natl Dublin	93		-	-	-	-
§	F.P.	38.5	123	116½	BFS O'seas Inc	121½		W12.65	-	10.4	-
§	F.P.	3.90	101½	56	Do Cap	97½	-1½	-	-	-	-
-	F.P.	-	148½	83½	Five Arrows Uts '40	106½	-2½	-	-	-	-
§	F.P.	45.2	99½	94½	Jupiter Enhanced	94½	-½	-	-	-	-
§	F.P.	48.2	110	103¼	Do Zero Div Prf	108½	+½	-	-	-	-
§	F.P.	15.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
§	F.P.	47.5	341½	311½	†Virtual Internet	311½		-	-	-	-
-	F.P.	6.58	85	75	Willington	77½		F6.0	2.7	7.7	3.2
-	F.P.	28.3	96	87½	Yeoman II IT Inc	95		W9.8	-	10.3	-
-	F.P.	8.61	8	4½	Do Cap	5¼		-	-	-	-
-	F.P.	30.7	116	102	Do Zero Div Prf	115		-	-	-	-
-	F.P.	-	99	96	Do Equity Units	98½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
875	Nil	26/1	240pm	190pm	EMAP	205pm	-25
9	Nil	25/1	5½pm	1½pm	Recognition Sys	3½pm	-½

pm premium.

FTSE GOLD MINES INDEX

	Jan 18	% chg on day	Jan 15	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index†(29)	996.58	0.0	996.33	1033.13	1.80	1001.82	1351.57	761.58
■ Regional Indices								
Africa (9)	1103.88	0.4	1098.94	1057.29	3.53	1115.66	1488.04	765.83
Australasia (9)	1189.61	-1.5	1207.30	1227.87	2.58	1199.26	1600.53	816.83
Americas (11)	932.39	0.2	930.60	1005.62	0.81	934.49	1317.41	647.69

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Jan 19	Day's chge%	Euro Index	£ Stlg Jan 18	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6027.6	-1.5	6706.2	6123.9	5278.2	2.71	2.32	1.89	24.36	1.34	2689.28
FTSE 250	4874.6	-0.6	5423.3	4903.8	4820.9	3.42	2.94	2.14	17.06	2.08	2121.46
FTSE 250 ex Inv Tr	4874.6	-0.6	5423.6	4904.6	4856.3	3.58	3.06	2.22	15.73	2.02	2130.91
FTSE 350	2832.1	-1.4	3150.9	2873.1	2528.6	2.82	2.41	1.94	22.90	0.71	2563.63
FTSE 350 ex Inv Tr	2839.0	-1.4	3158.6	2880.6	2533.1	2.83	2.42	1.95	22.67	0.70	1318.24
FTSE 350 Higher Yield	2599.7	-1.4	2892.4	2636.8	2534.3	3.98	3.39	1.83	17.12	0.71	2020.68
FTSE 350 Lower Yield	3080.3	-1.4	3427.1	3125.6	2537.8	1.70	1.47	2.17	34.01	0.72	2258.06
FTSE SmallCap	2102.90	-0.1	2339.85	2105.96	2362.20	3.87	3.19	2.06	15.67	2.65	1859.53
FTSE SmallCap ex Inv Tr	2060.34	-0.1	2292.29	2062.95	2364.96	4.13	3.41	2.18	13.89	2.65	1842.63
FTSE All-Share	2730.74	-1.4	3038.18	2768.69	2468.11	2.87	2.45	1.94	22.42	0.82	2509.03
FTSE All-Share ex Inv Tr	2741.76	-1.4	3050.43	2780.42	2474.76	2.88	2.46	1.96	22.11	0.79	1298.18
FTSE Fledgling	1177.48	+0.4	1310.05	1173.19	1285.63	4.28	3.47	1.33	22.02	1.20	1327.24
FTSE Fledgling ex Inv Tr	1187.44	+0.5	1321.13	1181.30	1310.74	4.89	3.96	1.37	18.70	1.28	1346.01
FTSE All-Small	1197.87	—	1332.73	1198.32	1337.90	3.96	3.25	1.89	16.69	1.45	1352.15
FTSE All-Small ex Inv Tr	1197.52	—	1332.34	1197.48	1364.05	4.29	3.52	1.89	14.65	1.49	1362.05
FTSE AIM	808.1	-0.6	899.1	812.9	980.2	1.33	1.06	0.91	80.00†	0.42	751.89

■ *FTSE* Actuaries Industry Sectors

	£ Stlg Jan 19	Day's chge%	Euro Index	£ Stlg Jan 18	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	4011.21	-2.6	4462.80	4117.53	4332.36	3.82	3.15	1.17	29.53	0.00	1871.98
12 Extractive Industries(6)	2677.89	-1.1	2979.15	2706.96	2921.43	5.11	4.70	1.99	12.29	0.00	863.88
15 Oil, Integrated(3)	4707.27	-2.7	5237.23	4836.84	4784.71	3.46	2.99	1.06	34.00	0.00	2258.73
16 Oil Exploration & Prod(9)	1307.43	-4.0	1454.62	1361.49	3314.38	4.26	3.72	0.97	30.27	0.00	818.76
20 GEN INDUSTRIALS(182)	1686.77	-2.6	1876.67	1731.95	1870.74	4.33	3.85	2.24	12.86	1.05	1010.18
21 Construction(37)	1192.59	-0.2	1326.86	1195.11	1291.93	4.28	3.48	3.04	9.63	0.46	1082.34
22 Building Matls & Merchs(24)	1436.80	-2.9	1598.67	1479.60	1633.32	5.26	4.54	2.12	11.22	0.33	801.68
23 Chemicals(20)	1717.62	-2.7	1911.00	1764.97	2438.64	5.30	5.00	1.84	12.79	0.52	893.23
24 Diversified Industrials(4)	1053.88	-1.7	1172.53	1072.09	1271.50	6.15	5.33	1.65	12.30	0.00	868.91
25 Electronic & Elect Equip(26)	2766.58	-3.4	3078.06	2864.73	2070.28	2.76	2.35	1.99	22.75	0.00	1550.42
26 Engineering(54)	2103.45	-3.4	2340.26	2176.65	2509.91	4.59	4.12	2.28	12.21	2.78	1386.38
27 Engineering, Vehicles(10)	3509.12	-0.6	3904.18	3529.50	3251.93	2.55	2.34	3.23	15.16	0.00	1955.28
28 Paper, Pckg & Printing(18)	1539.10	—	1712.37	1539.53	2003.55	6.79	6.31	2.36	7.80	2.42	711.91
30 CONSUMER GOODS(82)	6332.88	-0.8	7045.85	6387.00	5375.54	2.15	1.94	1.92	30.31	0.28	2533.06
32 Alcoholic Beverages(5)	3661.01	-1.0	4073.18	3698.53	3292.42	3.38	3.14	2.13	17.39	0.34	1467.76
33 Food Producers(26)	3664.94	-0.9	4077.56	3699.09	3440.15	2.45	2.12	2.31	22.11	0.10	1796.53
34 Household Goods & Texts(14)	1993.05	-2.4	2217.43	2041.42	3092.21	5.13	4.64	1.96	12.40	0.80	856.14
36 Health Care(14)	2444.82	-0.8	2720.08	2464.31	2357.11	2.17	1.96	2.17	28.08	1.96	1579.82
37 Pharmaceuticals(20)	11642.87	-0.6	12953.65	11714.38	9431.38	1.51	1.41	1.61	51.48	0.08	4195.62
38 Tobacco(3)	7876.71	-2.2	8763.49	8051.85	4898.93	4.36	3.64	2.04	14.04	0.00	2244.38
40 SERVICES(287)	3693.52	-1.6	4109.34	3753.33	2830.04	2.33	1.93	2.10	25.59	2.58	2056.31
41 Distributors(26)	1755.03	-1.6	1952.87	1784.38	2511.08	5.41	4.49	2.01	11.52	1.12	705.09
42 Leisure & Hotels(31)	3162.00	-2.1	3517.99	3228.88	3505.60	2.91	2.57	2.85	15.07	14.89	1815.05
43 Media(47)	4582.98	-0.6	5098.95	4611.93	3998.50	2.26	1.92	2.14	25.84	0.06	1751.75
44 Retailers, Food(13)	2740.33	-2.0	3048.85	2797.16	2852.32	3.34	2.68	2.17	17.30	0.00	1889.93
45 Retailers, General(42)	2038.05	-1.5	2267.50	2069.73	2282.41	3.87	2.95	2.09	16.32	4.84	1263.83
46 Telecommunications(7)	6250.12	-2.6	6953.77	6414.55	2991.36	1.44	1.18	1.59	54.69	0.00	3060.87
47 Breweries, Pubs & Rest.(23)	3515.39	-2.0	3911.16	3585.96	3802.69	3.58	2.90	2.21	15.80	8.07	1828.38
48 Support Services(69)	4884.27	-1.0	5434.15	4933.21	3855.10	1.28	1.10	2.78	35.04	0.45	3237.53
49 Transport(29)	3475.34	+0.8	3866.61	3446.12	2841.63	3.01	2.54	2.07	20.01	1.10	1569.62
60 UTILITIES(20)	4338.46	-0.6	4826.90	4365.30	3824.28	3.69	3.13	1.87	20.20	0.00	2110.88
62 Electricity(7)	5061.14	—	5630.94	5062.92	4235.37	3.99	3.25	1.71	18.30	0.00	3023.41
64 Gas Distribution(2)	3449.30	-1.2	3837.63	3491.68	2860.61	1.96	1.57	‡	‡	0.00	2010.60
68 Water(11)	3347.06	-1.2	3723.90	3388.51	3462.57	5.00	4.62	2.38	10.51	0.00	2110.33
69 NON-FINANCIALS(589)	2798.77	-1.6	3113.87	2843.57	2473.72	2.78	2.40	1.89	23.81	1.05	2310.51
70 FINANCIALS(120)	5159.74	-0.8	5740.63	5202.01	4966.24	3.19	2.65	2.16	18.11	0.12	2416.29
71 Banks, Retail(12)	7722.93	-0.9	8592.40	7792.60	7225.24	3.32	2.66	2.14	17.60	0.00	2737.98
73 Insurance(21)	2241.67	-1.3	2494.04	2272.11	2283.18	3.17	2.98	1.91	20.69	0.12	1879.66
74 Life Assurance(6)	7537.32	+0.1	8385.90	7530.19	6324.73	2.58	2.21	2.70	18.13	0.00	3397.79
77 Other Financial(31)	3708.99	-1.3	4126.56	3757.03	3815.82	2.98	2.46	2.53	18.56	0.87	2291.69
79 Property(48)	1700.96	-0.6	1892.46	1710.94	2295.12	3.67	3.13	1.90	21.23	0.06	1133.58
80 INVESTMENT TRUSTS(117)	3640.19	-0.6	4050.02	3662.44	3461.44	2.30	1.90	1.15	47.37	2.32	1389.87
89 FTSE All-Share(838)	2730.74	-1.4	3038.18	2768.69	2468.11	2.87	2.45	1.94	22.42	0.82	2509.03
105 FTSE All-Share ex Inv Tr(718)	*2741.76*	-1.4	3050.43	2780.42	2474.76	2.88	2.46	1.96	22.11	0.79	1298.18
Information Technology	1573.77	-1.5	1750.95	1598.23	1133.87	0.60	0.48	4.22	49.28	0.06	1582.11

■ **Hourly movements**

	8.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6108.5	6061.3	6016.8	6086.0	6079.7	6102.1	6107.8	6041.8	6138.7	6018.4
FTSE 250	4905.9	4898.9	4893.7	4882.6	4888.9	4887.1	4888.2	4877.2	4905.9	4873.1
FTSE 350	2866.3	2847.5	2829.4	2857.0	2854.2	2862.9	2865.3	2837.9	2877.7	2829.4
FTSE SmallCap	2105.23	2105.38	2104.23	2104.17	2103.88	2102.47	2104.11	2104.13	2105.68	2102.46
FTSE All-Share	2762.40	2745.07	2728.36	2753.75	2751.12	2758.12	2761.41	2736.16	2772.76	2728.36

Time of FTSE 100 Day's high: 14:28:00 Day's low: 11:00:00. FTSE 100 1998 High: 6179.0 (19/01/99) Low: 4648.7 (19/01/98)
Time of FTSE All-Share Day's high: 14:28:00 Day's low: 11:00:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2168.07 (05/10/98)
Further information is available on http://www.ftse.com.
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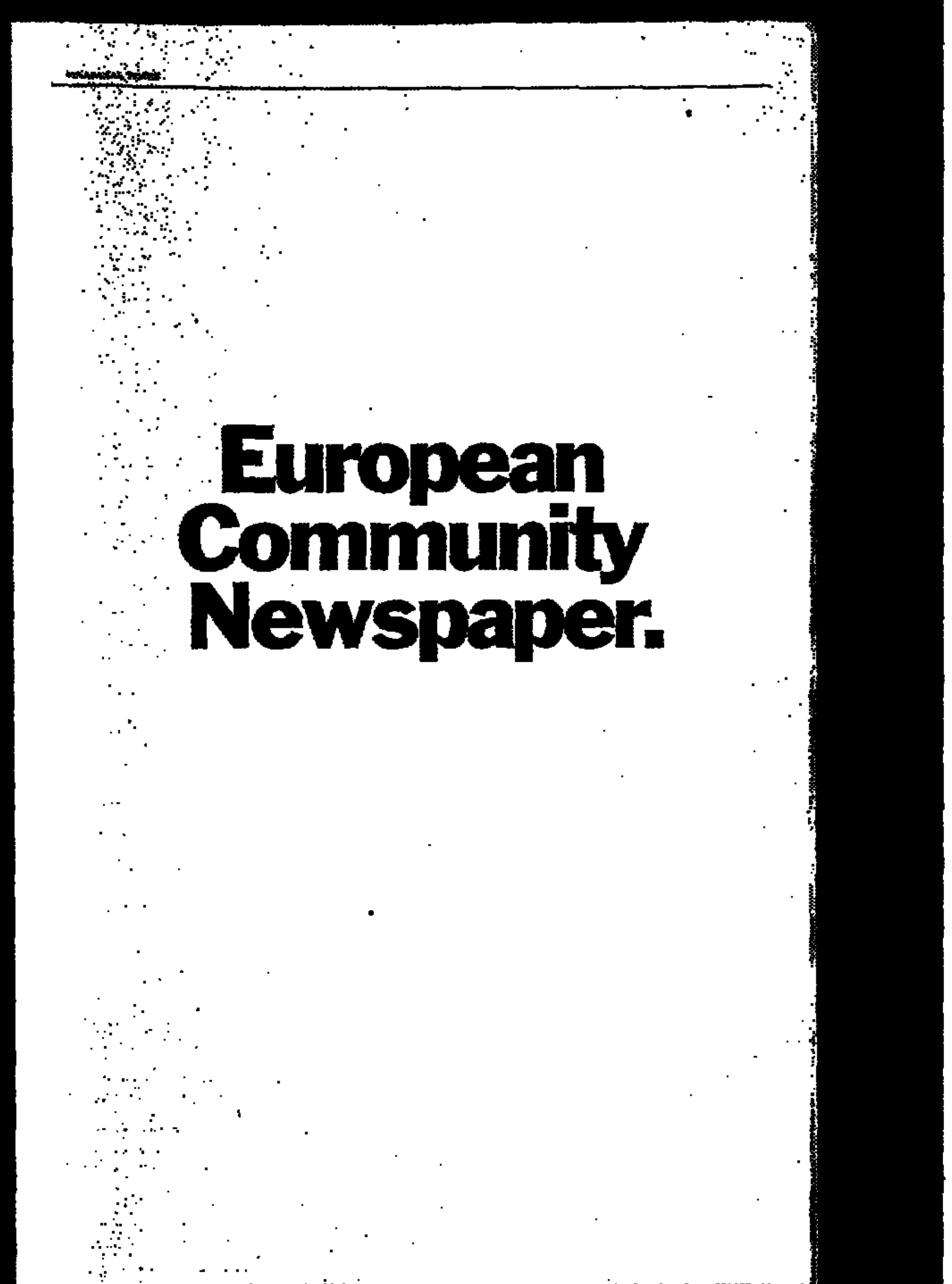
FTSE INTERNATIONAL

TRADING VOLUME

■ **Major Stocks yesterday.**

	Vol 000's	Closing price	Day's change
3i	1,600	615	-14
AMVESCAP	2,300	531	-17½
ASDA Group	6,400	151	
Abbey National	4,700	1294	
Alliance & Leicester	879	832	-28
Allied Domecq	3,600	498	-12
Allied Zurich	2,900	815½	-14½
Anglian Water	449	778½	-8
Assoc. Brit. Foods	749	554½	-5½
BAA	3,300	721½	-5
BOC	686	833	-23½
BG	6,800	359	-6½
BP Amoco	18,000	898½	-24
BSkyB	5,900	427½	-6½
BT	24,500	981½	-8½
BTR	9,800	109½	+½
Bank of Scotland	4,500	791	+13
Barclays	9,900	1414	+8
Bass	1,700	759½	-30½
Billiton	4,100	119½	-½
Blue Circle†	1,700	271	-19
Boots	2,600	987	-43
Britannic Assurance†	34	1212	-7
Brit. Aerospace	35,300	425¼	-68
British Airways	7,800	369	-8½
Brit. Amer. Tobacco	3,300	557	-18
British Energy	1,900	728	-10
British Land†	1,800	495	-18
CGU	6,300	881½	-30
CMG	397	1739	-40
COLT Telecom	2,800	1347½	+32½
Cable & Wireless	9,200	846	+17½
Cadbury Schweppes	2,800	864½	-28½
Carlton Comms.	2,900	536	-6
Centrica	9,500	118	
Compass	1,900	797	+13
Daily Mail & Gen.†	101	3250	+200
Diageo	3,900	670	-12
Dixons	2,400	1615½	-17
EMI	861	383	-12
Foreign & Col. I T	1,050	194½	
General Electric	14,600	546½	-31
Gallaher	1,700	422½	-12½
Glaxo Wellcome	8,200	2195	-4
Granada	2,200	1058½	-48½
GUS	4,300	629	-68
GRE	4,800	348½	+½
GKN	2,800	785	-8½
HSBC (75p shs)	3,700	1705	-39
HSBC (HK$10)	5,000	1685	-46
Halifax	3,000	782½	-9
Hanson	1,300	421½	-27
Hays	758	584½	-16½
ICI	2,000	459½	-25
Imperial Tobacco	2,100	696	
Kingfisher	2,100	834	-7½
Ladbroke	3,100	229½	-9
Land Securities	1,300	781½	-3
Legal & General	1,000	813	-10½
Lloyds TSB	8,000	832	-1
LucasVarity	2,800	226	+1
Marks & Spencer	10,700	347½	-10½
NatWest Bank	3,100	1130	
National Grid	28,000	545½	+17½
National Power	2,800	531	+½
Northern Rock†	2,300	559	-4
Norwich Union	3,000	407½	+3½
Orange	14,100	1000¼	-71
Pearson	1,100	1302	+1
P & O	2,700	629	+14
PowerGen	3,100	692	-53
Prudential	4,600	855½	+13½
Railtrack	2,700	1537	+67
Reckitt & Colman	816	739	-39½
Reed Intl.	3,500	498½	-7
Rentokil Initial	7,500	405	-1
Reuters	3,900	780	-15½
Rio Tinto	2,300	698	-6
Rolls Royce	3,100	239½	-3½
Royal & Sun Alliance	7,500	481½	+5½
Royal Bank Scotland	2,700	1102	-8½
Safeway	3,500	276½	-9½
Sainsbury	2,600	437½	-13½
Schroders	174	1096	-9½
Schroders N/V	16	880½	-21½
Scottish & Newcastle	2,800	661	-30½
Scot. & Sthn Energy	2,700	623½	-13
Scottish Power	5,000	555½	+1½
Securicor	1,200	590½	-3½
Severn Trent	408	958	-12
Shell Transport	11,400	335½	-10
Siebe	20,200	205	
SmithKline Beecham	13,100	866	-45
Smiths Inds.	317	825	-38
Stagecoach	5,000	250¼	+10
Standard Chartered	4,300	811	-14
Sun Life & Provincial	370	581	-11½
Telewest Comms.	27,400	249½	-8
Tesco	15,800	181½	-5½
Thames Water	895	1079	-32
Tomkins	10,300	263½	-4½
Unilever	5,500	646	-36
Utd. News & Media	2,100	488	-15
United Utilities	1,300	785½	-6½
Vodafone	81,800	1123	-102½
WPP	1,900	363	-8½
Whitbread	1,800	886	-22½
Williams	1,700	412½	-5
Woolwich	2,300	337	-3½
Zeneca	1,900	2768	+3

Based on trading volumes for the FTSE 100 constituent companies and reserves yesterday until 4.30pm. † Indicates a FTSE 100 index reserve. All trades are reported. Source: Estel, part of FT Information.



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FINANCIAL TIMES
No FT, no comment.

Source: *EBRS 98

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

EUROPE (NON-EMU)

PACIFIC

AFRICA

AMERICAS

Rockwell

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FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JANUARY 18 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JANUARY 15 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	207.79	0.8	186.50	150.13	208.32	217.84	0.7	3.37	206.18	185.05	148.37	204.84	216.38	219.98	163.86	202.68
Austria (21)	174.14	0.9	156.30	125.81	152.57	152.57	0.8	2.28	172.66	154.97	124.25	151.37	151.37	253.73	166.45	184.09
Belgium (22)	423.77	2.7	380.35	306.17	363.52	363.52	2.6	1.86	412.63	370.36	298.94	354.18	354.18	448.95	256.38	268.36
Brazil (32)	107.26	1.0	98.27	77.50	106.50	302.07	5.1	2.99	106.22	95.34	76.44	105.54	287.43	269.34	89.32	216.37
Canada (117)	211.17	0.9	189.54	152.57	209.68	238.57	1.0	1.67	209.20	187.77	150.54	207.84	231.27	248.78	159.54	203.40
Denmark (34)	499.05	1.0	447.92	360.56	495.53	435.88	1.0	1.61	494.23	443.60	355.66	491.04	431.72	537.33	420.12	459.67
Finland (29)	630.60	2.5	566.00	455.61	678.51	678.51	2.5	1.48	615.07	552.06	442.62	662.18	662.18	630.60	286.01	288.01
France (75)	339.03	2.4	304.30	244.95	300.81	300.81	2.3	2.09	331.12	297.20	238.28	293.96	293.96	354.45	232.70	233.01
Germany (55)	278.00	1.4	249.52	200.86	243.75	243.75	1.3	1.33	274.18	246.09	197.31	240.54	240.54	325.61	223.03	223.03
Greece (36)	381.22	4.0	342.17	275.44	378.54	761.68	3.4	1.11	366.63	329.07	263.83	364.25	736.75	388.53	211.47	–
Hong Kong, China (67)	315.25	2.0	282.96	227.77	313.09	313.61	2.0	3.90	308.93	277.29	222.32	306.93	307.32	362.55	198.64	287.99
Indonesia (26)	46.13	0.9	41.41	33.33	45.81	238.44	0.0	1.28	45.73	41.04	32.91	45.43	238.44	84.52	19.04	43.25
Ireland (16)	564.14	1.6	506.35	407.59	539.83	539.83	1.5	1.81	555.27	498.38	399.59	531.66	531.66	605.85	398.15	416.68
Italy (53)	179.78	2.4	161.37	129.89	224.18	224.18	2.3	1.24	175.60	157.61	126.37	219.09	219.09	192.64	124.47	126.01
Japan (445)	98.15	0.1	88.10	70.91	97.46	70.91	0.5	1.05	98.04	87.99	70.55	97.40	70.55	109.73	76.83	98.24
Mexico (29)	1023.96	3.4	919.06	739.82	1016.75	11413.80	0.9	2.24	990.19	888.75	712.57	983.78	11313.39	1733.79	787.15	1605.01
Netherlands (26)	522.22	2.9	468.72	377.30	452.92	452.92	2.8	2.09	507.59	455.59	365.28	440.49	440.49	562.73	394.92	406.28
New Zealand (16)	63.81	1.6	57.27	46.10	63.36	63.05	2.2	4.63	62.78	56.35	45.18	62.37	61.68	77.84	45.68	74.02
Norway (37)	236.19	1.9	211.99	170.65	234.52	238.69	1.4	2.41	231.74	208.00	166.77	230.24	236.38	357.71	181.86	294.05
Philippines (22)	95.82	6.2	86.00	69.23	95.14	182.65	5.1	0.81	90.25	81.00	64.95	89.67	173.66	106.98	42.48	69.36
Portugal (18)	266.74	1.4	239.42	192.72	315.63	315.63	1.3	1.04	263.20	236.23	189.40	311.61	311.61	299.39	194.13	–
Singapore (41)	231.49	3.5	207.77	167.25	229.86	179.48	3.7	1.56	223.73	200.81	161.00	222.28	173.05	248.74	102.45	173.34
South Africa (38)	193.15	3.6	173.36	139.55	191.79	252.04	1.4	3.76	186.36	167.27	134.11	185.15	248.67	346.20	151.55	242.89
Spain (30)	405.65	5.2	364.09	293.08	440.91	440.91	5.2	1.84	385.51	346.02	277.42	419.27	419.27	435.19	283.20	284.78
Sweden (44)	532.68	3.1	478.11	384.86	528.92	618.63	3.0	1.85	516.77	463.83	371.88	513.43	600.58	628.19	379.18	462.03
Switzerland (30)	418.14	0.2	375.30	302.11	415.19	358.44	0.4	1.19	417.22	374.47	300.24	414.51	356.90	441.65	307.73	332.17
Thailand (34)	25.75	3.9	23.12	18.61	25.57	36.40	3.6	2.60	24.79	22.25	17.84	24.63	35.12	33.84	8.15	18.21
United Kingdom (207)	389.90	2.9	349.95	281.70	387.15	349.95	2.9	2.81	379.01	340.18	272.76	376.56	340.18	401.84	307.96	336.93
USA (615)	512.34	0.0	459.85	370.17	508.73	512.34	0.0	1.27	512.34	459.85	368.69	509.02	512.34	526.31	390.12	392.11
Americas (793)	454.74	0.1	408.16	328.55	451.54	386.06	0.1	1.30	454.51	407.95	327.08	451.57	385.76	466.36	347.59	355.10
Europe (733)	367.76	2.4	330.09	265.71	365.17	334.78	2.4	2.02	359.26	322.46	258.53	356.93	327.10	398.24	282.63	289.41
Eurobloc (345)	108.99	2.4	98.03	77.30	101.53	101.53	2.4	1.70	104.46	93.76	75.17	99.19	99.19	113.92	81.53	–
Nordic (144)	516.55	2.5	463.63	373.21	512.91	514.28	2.4	1.74	503.92	452.29	362.63	500.65	502.10	555.97	360.04	408.71
Pacific Basin (729)	106.92	0.4	95.97	77.25	106.17	80.26	0.8	1.56	106.45	95.55	76.60	105.76	79.66	119.48	82.89	105.57
Euro-Pacific (1462)	215.41	1.8	193.34	155.63	213.89	175.86	1.9	1.89	211.56	189.89	152.25	210.19	172.60	221.79	168.00	182.25
North America (732)	492.05	0.0	441.64	355.51	488.58	493.17	0.0	1.29	491.89	441.49	353.98	488.70	493.00	504.30	374.92	379.97
Europe Ex. UK (526)	344.07	2.1	308.82	248.59	341.65	317.27	2.1	1.63	336.99	302.41	242.46	334.75	310.77	366.32	257.80	257.80
Europe Ex. Eurobloc (388)	99.78	2.3	89.56	72.09	99.08	98.82	2.3	2.36	97.53	87.54	70.19	96.90	96.57	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (181)	100.72	1.1	90.40	72.77	100.01	96.09	1.2	1.41	99.58	89.38	71.66	98.94	94.93	109.21	75.16	–
Pacific Ex. Japan (284)	188.78	1.8	169.44	136.40	187.45	192.21	1.6	3.41	185.73	166.71	133.66	184.53	189.18	216.04	128.26	177.28
World Ex. Eurobloc (1948)	105.90	0.5	106.82	90.98	105.16	104.21	0.6	1.55	105.34	106.25	90.13	104.66	103.61	108.05	83.09	–
World Ex. US (1678)	214.42	1.8	192.46	154.92	212.91	180.80	1.9	1.90	210.64	189.06	151.58	209.27	177.49	221.91	165.95	186.24
World Ex. UK (2086)	302.86	0.6	271.83	218.81	300.72	269.40	0.6	1.43	301.08	270.19	216.63	299.08	267.69	311.48	236.11	243.87
World Ex. Japan (1848)	415.82	0.9	373.22	300.43	412.89	404.79	0.9	1.63	412.04	369.82	296.51	409.37	401.15	427.86	320.58	328.66
The World Index (2293)	310.36	0.8	278.56	224.23	308.17	276.81	0.9	1.57	307.77	276.24	221.48	305.78	274.42	318.61	242.36	251.74

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Emerging markets: IFC Investable indices

Dollar terms

Jan 18 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	727.87	–1.2	–8.7
Brazil	220.97	+0.2	–19.7
Chile	407.19	+0.6	–9.8
Colombia[1]	394.26	+1.2	–10.3
Mexico	435.30	+3.3	–9.8
Peru[2]	131.59	+1.5	–2.1
Venezuela[3]	394.54	+0.4	–13.0
East Asia			
China[4]	24.71	+1.0	–5.6
India[7]	88.67	+2.2	+7.0
Indonesia[8]	22.80	+0.9	–5.4
Korea[3]	57.86	+1.4	+9.1
Malaysia	93.24		+5.3
Pakistan[9]	89.15	–1.0	–5.7
Philippines	131.21	+5.2	+8.6
Sri Lanka[10]	77.79	+1.0	–5.5
Taiwan, China[6]	117.51	–1.3	+1.5
Thailand	69.34	+1.8	+9.8
Europe			
Czech Rep	50.20	+3.1	–1.1
Greece	877.52	+4.2	+9.4
Hungary[11]	285.82	+9.7	+1.9
Poland[12]	547.80	+8.6	+4.6
Portugal	309.61	+1.7	+4.0
Russia	22.40	+2.0	–4.5
Slovakia	44.32	–0.0	+1.7
Turkey[14]	135.01	–2.3	–7.7
Mideast/Africa			
Egypt	69.73		+8.2
Israel	105.44	+2.4	+3.2
Jordan	222.24	–0.1	+2.8
Morocco	170.60	+0.4	+1.9
S Africa[13]	131.20	+4.8	+4.8
Zimbabwe[8]	100.65	+9.5	–4.5
Regions			
Composite	169.87	+2.0	–1.8
Latin America	369.89	+1.2	–12.6
Asia	111.54	+0.8	+4.2
EMEA	118.75	+3.5	+3.9
Europa	165.02	+3.3	+3.5
Eastn Europe	58.82	+7.0	+1.2
ME & Africa	55.98	+3.7	–4.4
Comp + Malay	187.45	+1.8	–1.1
Asia + Malay	112.89	+0.7	+4.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1996; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 29 1995; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (13)Aug 2 1993; (14) July 2 1993

Latest indices were unavailable for this edition.

4 pm close January 19

NEW YORK STOCK EXCHANGE PRICES

1998/99 High Low Stock | Div | Yld % | P/E | Vol 100s | High | Low | Close Quote | Chng Prev. Close

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 15	Jan 14	Jan 13	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9340.55	9120.93	9349.56	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.70	106.76	106.88	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3148.53	3080.28	3169.42	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	308.54	303.43	308.07	320.51 (8/10/98)	262.66 (8/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9381.74 (9380.20) Low 9124.02 (8652.44) (Theoretical) Day's high 9342.81 (9359.08) Low 9127.16 (9087.72) (Actual)

Standard and Poors	Jan 15	Jan 14	Jan 13	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1243.26	1212.19	1234.40	1275.09 (8/1/99)	927.69 (8/1/98)	1275.09 (8/1/99)	4.40 (1/6/32)
Industrials♥	1496.91	1461.72	1485.06	1530.43 (6/1/99)	1077.49 (8/1/98)	1530.51 (6/1/99)	3.52 (30/6/32)
Financial♥	132.26	127.48	131.43	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	593.39	581.07	590.72	611.66 (8/1/99)	477.20 (8/10/98)	611.66 (8/1/99)	4.64 (25/4/42)
Amex Comp	709.29	698.16	699.39	763.67 (22/4/98)	563.75 (8/10/98)	763.67 (22/4/98)	524.20 (16/7/95)
NASDAQ Cmp	2348.20	2276.82	2316.81	2384.59 (11/1/99)	1419.12 (8/10/98)	2384.59 (11/1/99)	54.87 (3/10/74)
Russell 2000	427.05	420.10	424.86	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.38 (7/12/93)

RATIOS

	Jan 15	Jan 8	Dec 31	Year ago
Dow Jones Ind. Div. Yield	1.64	1.58	1.66	1.77
	Jan 6	Dec 30	Dec 23	Year ago
S & P Ind. Div. yield	1.11	1.17	1.17	1.49
S & P Ind. P/E ratio	39.11	37.82	37.69	25.96

US DATA

MARKET ACTIVITY

Volume (million)	Jan 15	Jan 14	Jan 13
NYSE	798.190	797.813	934.240
Amex	22.676	27.868	29.995
NASDAQ	1007.31	1016.35	1197.54

NYSE	Jan 15	Jan 14	Jan 13
Issues Traded	3,538	3,530	3,584
Rises	2,189	894	1,026
Falls	858	2,150	2,097
Unchanged	491	486	441
New Highs	44	23	20
New Lows	19	48	74

NYSE TRADING ACTIVITY

Volume : 798,190,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Cendnt	12,622,500	20¾	+1¼
Citgrp	12,496,300	52	+1½
PhmUpj	11,908,100	56	+⅞
Compaq	8,958,000	48⅞	+2¾
AmOnLne	7,068,700	147¼	+2⅞
LucentTch	6,775,400	110¼	+4⅛
PhMorr	6,416,300	52⅛	-⅜
BankAm	5,875,000	64⅞	+2¾
GenElec	5,739,700	100⅞	+3¾
BellAtl	5,271,100	53¾	-⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Stable B	27½	+4½	+19.2
Scansq A	26¾	+3¾	+17.2
BzziFd	10⅛	+1½	+16.7
Tokheim Co	11	+1¾	+14.3
Downs			
NEngBus	32⅛	-3⅛	-8.7
Chemfab	17	-1¼	-6.8
Barber Sd	21¼	-1½	-6.6
Aerflx	16¾	-1¼	-6.2

NASDAQ TRADING ACTIVITY

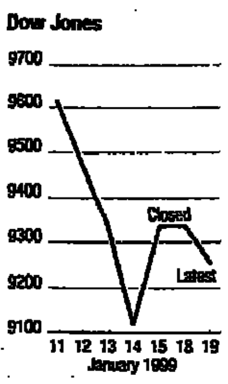
Volume :1,007,805,600

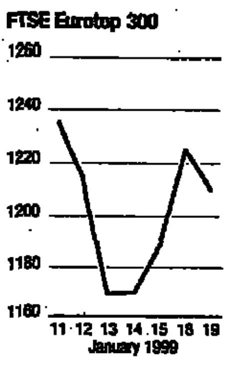
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
PhmnTc	26,883,100	13¾	-5⅜
CiscoSys	18,044,300	101⅞	+5⅜
Intel	15,833,700	135¾	+1⅜
Micsft	14,758,500	149¼	+8
DellCmp	14,186,400	79	+1⅝
MCIWcm	11,503,700	75⅛	+4⅛
Oracle	11,047,000	47¾	+2¼
Novell	10,983,400	20⅛	+1⅛
Yahoo	10,481,100	317	-25⅞
Amz.com	10,046,300	140¾	+2½

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
ASETest	41½	+8½	+25.8
NTL Inc.	68¾	+12⅞	+22.9
CBT ADR	16½	+2½	+18.8
BcoGalicia	12⅜	+1⅞	+17.7
Downs			
MercoCstw	10⅛	-4½	-29.5
PhmnTc	13¾	-5⅜	-28.4
DoubleClk	72⅛	-12⅞	-14.8
MicroTch	35⅛	-4¾	-11.6





JAPAN

	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	13770.44	13805.06	closed	17264.3	12880	38915.9	85.25

Day's high 13883.01 Day's low 13756.96

TOKYO TRADING ACTIVITY

Volume : 308,210,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Tshiba	7,861,000	721	-2
NecMI	6,852,000	408	-8
Hitachi	5,227,000	772	-14
BTokM	5,214,000	1240	-10
NKK	4,309,000	69	-1
NpStl	4,252,000	197	-4
MitTrB	3,922,000	104	-2
MbElec	3,818,000	365	-5
Sakura	3,628,000	254	+1
MbHvy	3,609,000	402	-10

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Heiwa	1350	+190	+16.3
[illegible]	259	+35	+13.3
Zexel	218	+16	+7.9
Sftbnk	5990	+650	+7.8
Downs			
[illegible]	1750	-190	-9.7
Yamaha	663	-41	-5.9
[illegible]	647	-38	-5.5
JtGwAll	119	-6	-4.8

FRANCE

	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4115.69	4151.68	4054.81	4388.48	2862.54	4388.48	984.81

Day's high 4186.14 Day's low 4090.87

PARIS TRADING ACTIVITY

Volume : 625,204,120

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
FrTele	3,362,735	76	+0.2
BNP	1,651,052	77.15	+0.55
Renault	1,411,942	44	-0.21
Alctel	1,197,778	96.95	-8.95
SocGen	952,955	155	+0
TotalB	951,405	91.3	-0.1
Axa	943,614	129.4	+1.4
Paribas	873,796	83.5	+0.8
MichlnB	871,364	31.9	-0.09
STMicro	774,086	79	-3

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Lgrdr	36.75	+2.24	+6.5
ClubMd	77.85	+4.35	+5.9
Canal+	221	+11.1	+5.3
GrAnds	99	+4	+4.2
Downs			
Equant	64	-6	-8.8
Alctel	86.35	-8.95	-9.5
Sema	50.65	-2.85	-5.3
SkiSobn	108	-5.7	-5.0

GERMANY

	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5073.15	5050.40	4960.22	6171.43	3896.08	6171.43	931.18

Day's high 5123.38 Day's low 4984.49

FRANKFURT TRADING ACTIVITY

Volume (m)

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dt Tel	642,402	37.1	+2.1
Bayer	514,474	33.05	-0.95
DeubC	368,006	90.3	-0.6
BASF	355,411	33.1	-0.1
Siemns	289,752	56	+0.7
Veba	269,614	45.25	-1.25
Mannsm	263,355	119.9	+3.3
RWE	196,990	39	+0.8
H'chst	182,665	35.5	-0.5
VW	129,761	69.1	+0.5

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
KlockW	53.25	+5.75	+12.1
Thyssn	153.5	+10.5	+7.3
Dt Tel	37.1	+2.1	+6.0
Suedzk	359	+19	+5.6
Downs			
AaMnRg	107.5	-4.5	-4.0
MG	47.1	-1.85	-3.8
Hrtz	27	-1	-3.6
AachMuenR	88	-3	-3.3

UK

	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6027.6	6123.9	5941.0	6179	4648.7	6179	986.9

Day's high 6139.7 Day's low 6016.4

LONDON TRADING ACTIVITY

Volume : 1,071,700,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Vodafone	81,794,570	1123	-102½
BrtAerospace	35,302,180	425½	-68
Sema	30,235,400	205	
National Grd	27,970,030	545½	+17¾
Telewest	27,376,760	243¾	-6
LASMO	20,615,360	103	-3½
Fairview	20,329,820	85	-2
BP Amoco	18,010,330	893½	-24
Tesco	15,931,400	181½	-5¼
GEC	14,615,030	546½	-31

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Zergo	702½	+162½	+30.1
On-Line	172½	+38	+28.2
Wood (A)	92½	+17½	+23.3
Hse of Fraser	88	+15½	+21.4
Downs			
Northstar	47½	-10	-17.4
G R Hldgs	50	-10	-16.7
Ferrum	1½	-¼	-14.3
Dailywin	3	-½	-14.3

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1219.10	1260.80	+41.80	1262.00	1245.80	102,151	387,214
Jun	1270.00	1273.50	+42.90	1273.50	1270.00	334	7,156
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	13870.0	13820.0	+30.0	13880.0	13750.0	21,874	189,598
Jun	13640.0	13640.0	-	13640.0	13640.0	2	30,094

Open interest figures for previous day

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	4165.0	4124.0	-41.0	4195.0	4105.5	81,100	84,377
Feb	4165.0	4134.0	-41.0	4204.0	4116.5	3,375	7,943
DAX							
Mar	5089.0	5047.0	-48.0	5157.0	4991.5	59,031	151,624
Jun	5071.0	5092.0	-30.0	5132.0	5040.0	2,884	25,559

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	713.00	721.00	+1.00	729.75	713.00	56,802	120,248
Feb	716.75	724.00	+1.00	732.50	716.75	40,354	45,133
EOREX							
Mar	7279.0	7258.0	-13.0	7311.0	7170.0	30,852	137,554
Jun	7160.0	7206.0	-10.0	7248.0	7121.0	215	2,631

WORLD MARKETS AT A GLANCE

Country	Index	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Yield	PE
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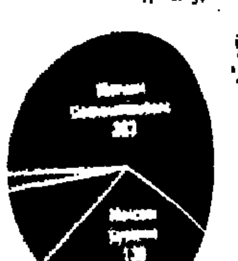

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 19

[illegible]

AMEX

4 pm close January 19

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EASDAQ

[illegible]

gan Stanley Dean Witter

STOCK MARKETS

ECB opens account with growth warning

WORLD OVERVIEW

Dark hints from the European Central Bank about slowing economic growth plus a nervous dollar created the conditions yesterday for another volatile session for stock markets, *writes Jeffrey Brown.*

Wall Street, where investors fretted about the outlook for Latin America, returned from a three-day weekend in less than confident mood and, as a result, midsession gains in Europe were wholly reversed by the close.

Clear levels of hesitancy also showed through in trading volume, which remained moderate at best. If there was no real weight of selling, there was equally a lack of positive buying as traders and investors cast around for broad direction.

There was no denying the restraining influence of the ECB, which in its first monthly report since the euro came into being, warned that economic growth throughout the eurozone was showing unmistakable signs of slowing.

In a clear reference to events in Brazil, the bank said recent global developments could hit the eurozone harder than expected. There had been "no proof as yet" of slowing consumer spending but uncertainties had dampened industrial confidence and darkened expectations for growth.

Industrial confidence had "declined significantly towards the end of last year". The ECB noted that compared to 3.1 per cent in the first six months, estimated gross domestic product growth in the third quarter slackened to 2.4 per cent.

This bearish tone will have struck a cord with those brokers who have been progressively downgrading 1999 profit forecasts.

Goldman Sachs recently cut its estimates of earnings per share for Europe from 7 per cent to 4 per cent, although it has pencilled in a return to 7 per cent for 2000, thanks mostly to an anticipated rebound for the UK economy.

Salomon Smith Barney makes the point that growth this year in industrial countries could be the weakest since 1982. With low inflation, nominal GDP growth may not top 2.3 per cent, the "lowest level of growth in the post-war era".

To gain ground in this economic climate, companies have to find ways of increasing productivity and profits – restructuring becomes inescapable, says Salomon. Recent performances among bank, motor and telecoms sectors bear out these words.

French investors kept the bank sector mood upbeat yesterday with a further burst of speed at Société Générale, which extended the shares rally to more than 14 per cent in two days.

Dow weakens but techs rise after takeover

AMERICAS

Wall Street was mixed at midsession as financial service companies reported earnings while technology stocks got a boost from the latest internet takeover, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was down 67.72 at 9,272.83. The broader Standard & Poor's 500 index fell 1.74 to 1,241.52. Cyclical stocks weighed on the midday Dow, led by International Paper, off $2¼ or 5.5 per cent at $42¼, and Caterpillar, down $1½ at 46\frac{1}{16}$.

But AT&T shares gained more than 4 per cent to $88 on enthusiasm for the planned $6bn takeover of Excite, an online portal company, by internet cable service provider At Home.

Internet stocks rallied on the news. Lycos, another leading portal company, surged $19¼ to $107 and Excite rallied 46 per cent to $99¾.

Sothebys Holdings, the international auction house, gained 14 per cent or $4¼ to $36¾ after the company announced the launch of a new online auction business.

Rising internet and other high-tech stocks sent the Nasdaq up 27.08, a gain of more than 1 per cent, to 2,375.28.

Semiconductor and major computer makers were mixed, with Motorola down 1\frac{1}{16}$ to 68\frac{1}{16}$ and Hewlett-Packard off $1¾ at $68¾. But shares of software producer Oracle climbed 8 per cent or 4\frac{1}{16}$ to 51\frac{1}{16}$ after analysts at Morgan Stanley Dean Witter raised its price target to $58 from $43.

In the banking sector, Chase Manhattan rose $2¼ to 73\frac{1}{16}$ and BankAmerica lost $1⅞ to 62\frac{11}{16}$ after each released earnings results. Other major banks fell back, with Citigroup off $¾ to $51¾. Brokerage Merrill Lynch fell 1\frac{1}{16}$ to 71\frac{7}{16}$ after it released its own results.

Drug producer Pfizer rose $1¾ to 117\frac{1}{16}$ after it reported its quarterly results. Warner-Lambert fell 2\frac{11}{16}$ or 4 per cent to $67 after the company was cut to "outperform" from "buy" by Salomon Smith Barney.

Small-company shares were mostly higher, sending the Russell 2000 index up 1.43 to 428.48.

TORONTO moved lower in early trading, overshadowed by the soft start on Wall Street and a run of profit-taking among leading bank and gold stocks.

By noon the 300 composite index was off 62.52 at 6,760.30 with Royal Bank of Canada down C$1.55 at C$77.95 and Canadian Imperial adding to the sector gloom with a fall of C$1 at C$38.95.

In golds, Barrick shed 40 cents at C$30.15 while blue-chip rival Placer Dome came off 70 cents at C$17.90.

The trend among industrials was more mixed. Seagram lost C$1.50 at C$63.90 and Bombardier dipped 15 cents to C$22.75. In contrast, Canadian National Railway added 80 cents at C$80.30.

São Paulo surge fades after analyst's alert

An early rally ran out of steam in **SAO PAULO** after the gains of 40 per cent in two sessions that marked relief at the central bank letting the currency float.

The Bovespa index climbed to 7,392 but by midsession the index was little changed, up 25 at 7,139.

The pullback came as David Chon, Bear Stearns Latin American strategist, recommended investors sell into the rally since the stocks were no longer cheap, and add to positions in Mexico, Chile and Argentina.

Brazil's decision last week to give up supporting its currency would harm the economy through lower growth, rising inflation and lower purchasing power, he said.

MEXICO CITY extended losses as investors became increasingly cautious about the outlook for higher local interest rates and weak first-quarter corporate results.

The IPC index lost 101.02 or 2.8 per cent to 3,536.95 by midsession as concern about developments in Brazil kept the lid on the market.

BUENOS AIRES was 1.7 per cent lower at midsession in response to more worries over Brazil's devaluation and Wall Street's late-morning weakness. The Merval index fell 6.28 to 367.35.

Telekom profits fail to connect

EUROPE

An uncertain response to solid results from Deutsche Telekom sent **FRANKFURT** on a roller-coaster ride.

Telekom initially ran into profit-taking, falling 4 per cent, after preliminary 1998 results in line with expectations. But the shares picked up to close €2.40 or 6.9 per cent higher at a record €37.30, helped by an upgrade from Commerzbank.

The early weakness in Telekom permeated through to the Xetra Dax, which spent much of the morning in negative territory before early strength on Wall Street sent the market higher. By the close, the index had again run out of steam. It ended 38.40 down at 5,038.45.

Mannesmann put on €2.60 to €119.20 as the German group and its Italian partner Olivetti lifted their offer for the US-based Cellular Communications International to $80 a share after a previous bid flopped. Telekom competitor Mobilcom shot up €41.50 to €431.

The FTSE Eurotop 300 index fell 10.18 or 0.83 per cent to 1,213.54. See Euro Prices page.

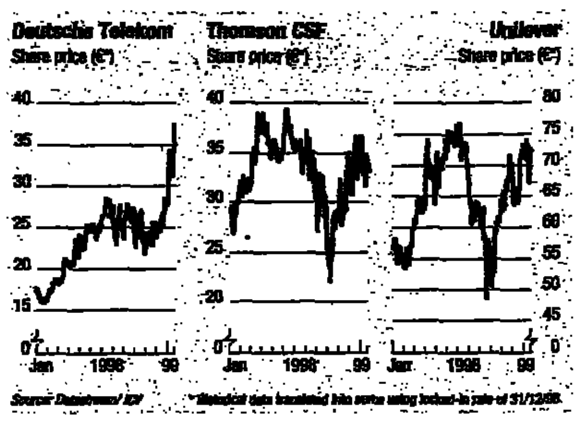
Industrial group Thyssen jumped €7.50 to €151 as bargain-hunters sought out the stock after its recent falls.

Lufthansa gained 26 cents to €19.40 on expectations of a positive 1999 outlook from the group after the market closed.

Industrial giant DaimlerChrysler gave only a muted response to news of the BAe-Marconi deal, which appeared to have scuppered any hopes of a British merger for Dasa. By the close, DaimlerChrysler was €1.25 lower at €90.

PARIS reversed a three-day rally, dipping 35.69 to 4,115.99 on the CAC-40 index after some fairly heavy selling of defence leaders Thomson-CSF and Alcatel.

CSF was active on news British Aerospace had won the bidding for Marconi Electronics. Its shares, which had risen strongly on hopes that the French group would clinch a deal, ended €1.72 lower at €33 after touching a session low of €31.30.



Source: Datastream/ICV *Historical data translated into euros using locked-in rate of 31/12/98

Elsewhere with the defence sectors, Alcatel lost €8.95 at €96.35 but Lagardère, which is merging its Matra defence unit with Aerospatiale, gained €2.24 at €36.75.

Banks stayed in demand, buoyed by sector consolidation speculation. BNP added a further 55 cents at €77.15 and Société Générale gained €6 at €155.

AMSTERDAM ended 4.67 higher at 548.88 on the AEX index, thanks to a number of solid gains among the big Dutch cyclicals. Unilever added 2.8 per cent and Akzo Nobel advanced 4.9 per cent.

Unilever pushed up €2 at €72.55 in the face of a profits downgrade from Goldman Sachs. The broker is lopping 2 per cent off its earnings forecasts for this year and next as a result of the food and detergents giant's Latin American exposure.

ZURICH ended with the SMI index registering a loss of 40.4 at 7,207.7. Nestlé, a sharp loser on Monday, gave up another SFr39 to SFr2,630. The slide followed confirmation that chief executive Peter Brabeck had let slip to a small circle of major investors that the company had missed its key 4 per cent target for sales volume growth last year.

A number of analysts have scaled back their 1998 sales forecasts while many have been critical that the information had leaked out just days before the figures are reported officially on Friday.

The major pharmaceuticals stocks largely overcame early weakness. Novartis finished SFr9 higher at SFr2,845 as expectations were raised for its 1998 sales figures, due tomorrow. Roche certificates turned back from a high of SFr18,200 to close SFr20 easier at SFr17,980.

MILAN ran into some profit-taking late in the day and the Mibtel index ended off 432 at 23,846.

Olivetti closed down 13.3 cents or 4.2 per cent at €3.061. As well as news of a raised offer for Cellular Communications of the US, Olivetti was hit by a downgrade by Warburg Dillon Read.

Banca Commerciale Italiana came off 10.7 cents or 1.8 per cent to €5.775 on disappointment that a board meeting on Monday had failed to yield an announcement about its latest attempt to merge with Banca di Roma. Banca di Roma finished 6.9 cents or 4.8 per cent down at €1.879.

MADRID fell in line with the downturn on Wall Street. The general index lost 8.91 at 880.72.

Investors cooled their enthusiasm for bank stocks, which had made strong gains since the announcement on Friday that BCH planned to merge with Santander. Although Santander hardened 45 cents at €17.28, BCH shed 25 cents or 2.4 per cent to €10.22.

There was little joy elsewhere in the sector. Banco Bilbao Vizcaya fell 41 cents to €13.60, Argentaria came off 80 cents to €23.60 and Popular finished €1.70 lower at €66.

HELSINKI reached an all-time high close as Nokia achieved a record end-of-day performance. The Hex index rose 109.87 to 6,164.69, beating its January 8 close of 6,091.08.

Nokia, which will reveal its 1998 results on January 29, enjoyed a late rally after tech stocks opened strongly in the US. It ended at €122, up €1.02 or 0.8 per cent.

STOCKHOLM experienced a volatile day as the automotive sector again benefited from takeover speculation.

Volvo closed €8.50 or 4 per cent higher at €223.5 after fresh reports that it could be acquired by Fiat of Italy. The general index gained 6.34 to end at 3,312.89.

Written and edited by Michael Morgan, Michael Peel, Paul Gregan and Peter Hall

Inflation data boost Jo'burg

SOUTH AFRICA

Johannesburg was lured off its morning lows by the prospect of a positive start on Wall Street.

The overall index closed 36.8 higher at 5,755.5, bolstered by better-than-expected inflation data, and before US stocks ran out of steam.

Financials put on 115.5 to 8,788.5 and industrials were 42.0 higher at 6,665.1.

Golds also recovered some ground, picking up 5.1 to 983.6 as the bullion price firmed.

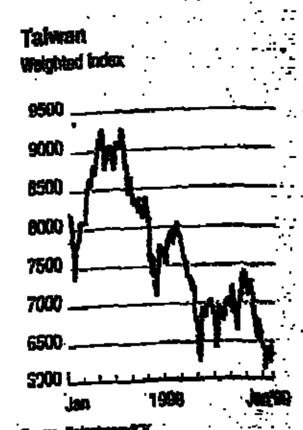
EMERGING MARKET FOCUS

Lady luck offers glimpse of hope

An alluring model clad in scarlet bra and panties stares out from the newspaper advertisement for a Taiwan clothing company.

"Legend has it that wearing red underwear while playing the stock market assures profit all the way," the advert says.

There is no way of knowing how many investors are donning "get-rich panties" in the hope of raising returns, but there is little doubt that after recent painful losses, help from any quarter would be welcome.



Source: Datastream/ICV

Taiwan shares, which fell in the second half of last year as others in the region soared, opened 1999 with a 4 per cent fall to a 29-month low and many analysts think it could be some time before things get much better.

The poor performance is galling for an island that seemed immune to Asia's economic ills, but which has lately been beset by a host of worries that caused the main Taipei index to lose a fifth of its value in 1998.

Fears for the health of the banking sector, bouncing corporate cheques, a slide in exports and the first fall in the annual sales of listed companies in a decade have battered confidence.

A huge housing inventory hangs over construction shares, while expectations that Taiwan will report economic growth of about 5 per cent for 1998, have provoked howls on an island used to rates nearer the five-year average of 6.3 per cent.

No one suggests a south-east Asian-style meltdown is looming, but some observers see neighbour Japan as an example of what can happen to an economy with structural banking sector problems but also the capital to put off its problems.

"Taiwan is on the path to becoming a mini-Japan," said Peter Tsao of ING Barings Securities in Taipei. Government efforts to support the market with a huge state-led stabilisation fund had lost all credibility, he added. The fund commands a headline T$283bn but relies on persuasion to ensure the institutions involved actually buy any shares, a difficult task in a falling market.

But the picture is not all bleak. The government is pursuing vigorous stimulus policies. Stock prices are up from depths plumbed on the year's first day of trade. Many analysts say the Taipei index is unlikely to fall far below the 6,343.36 points it ended at yesterday and that a rise to about 8,000 is possible in 1999.

The electronics sector, which dominates turnover, should continue to benefit from an expected rise in chip prices. Neal Stovicek, strategist at National Securities, said that while fundamentals suggested many shares were still overvalued, there was also potential for liquidity-driven rises. "At any time the Taiwanese market can surprise on the upside."

Investors can also look elsewhere for luck. Lingerie brand Audrey suggests its scarlet smalls can help find partners, win pay rises and perhaps even recoup stock losses. "Legend has it," the advert says, "that wearing red underwear when gambling with others means you win nine times out of 10."

Mure Dickie

Tokyo focuses on falling bonds

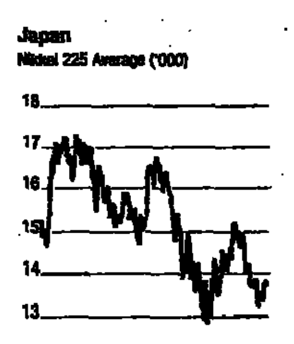
ASIA PACIFIC

Shares in **TOKYO** edged lower on a dull day when many investors were absent because of the holiday in the US. For investors who were present, the focus remained on a tumbling bond market and the yen, *writes Naoko Nakamae.*

The Nikkei 225 Average closed 34.62 lower at 13,770.44 after trading between 13,883.01 and 13,756.96. Other indices were similarly little changed, with the weighted Nikkei 300 index losing 0.78 to 213.10 and the broader Topix index of first-sector stocks down 0.99 to 1,074.80. Volume was light at 308m shares, with 602 rising issues and 487 declining.

Exporters' shares were mainly lower after recent gains. Toshiba, the most heavily traded stock, was down Y2 at Y721. Its rival Hitachi was also lower, falling Y14 to Y772. Among other exporters, Bridgestone lost Y90 or 3.5 per cent to Y2,460, while Toyota Motor dropped Y45 to Y2,805.

Retailers were one of the strongest sectors, rising 0.8 per cent over the day. Ito-



Source: Datastream/ICV

Yokado rose Y220 to Y6,980, while Seven-Eleven Japan climbed Y70 to Y8,550.

Banks also registered a small gain. Sumitomo Bank was up Y20 to Y1,271, while Daiichi Kangyo Bank gained Y6 to Y634 and Sakura Bank rose Y1 to Y264.

In Osaka, the OSE index was down, falling 6.97 points to 14,728.5.

WELLINGTON continued to push higher with market heavyweight NZ Telecom hitting a record high for a second session. Brokers said sentiment remained bolstered by Monday's favourable inflation data.

Buying was again across the board. Telecom rose 24 cents to NZ$9.25. Fletcher Building gained 14 cents to NZ$3.16. The 40 capital index ended 34.84 or 1.6 per cent higher at 2,194.70.

SYDNEY also met with further buying as the broad market readily absorbed some profit-taking among resource leaders. In fairly modest turnover, the All Ordinaries index closed 25.4 higher at 2,855.8.

Banks were firm. NAB advanced 58 cents to A$26 and telecoms leader Telstra continued to gain ground in spite of negative regulatory news. The Competition and Consumer Commission ruled that Telstra's interconnect charges should be halved, but such is the strength of of the global telecoms rally at present that the stocks still managed to rise 20 cents to A$8.10.

In resources, Rio Tinto shed 14.6 cents to A$19.41.

HONG KONG fell prey to overseas institutional selling of defensive issues and futures-related trading, and the Hang Seng index closed 112.43 lower at 10,290.11, although turnover remained very light at HK$4.3bn.

Brokers said the market was still suffering from negative overseas media reports that Hong Kong's currency would be the next to fall following the devaluation of Brazil's Real.

Utilities pulled blue chips lower, while the H-share and red-chip sectors suffered even greater losses. The red-chip Hang Seng China-Affiliated Corporations index slid 2.2 per cent, while the H-share Hang Seng China Enterprises index dropped 2.7 per cent.

BOMBAY was lower after Monday's gains amid position-squaring by local speculators on the last day of account at the National Stock Exchange.

Lower-than-expected results in some key issues also contributed to a 59.67 or 1.8 per cent slide to 3,218.91 in the BSE-30 index.

Among the corporate reporters, tobacco conglomerate ITC ended Rs26.50 lower at Rs807.50.

Reliance Industries, which announced third-quarter results on Monday, lost Rs4.90 to Rs130.80. The company said it had been affected by an accident at an offshore oil terminal.

What about diversification after the Euro?

www.lombardodier.ch/euro/

Lombard Odier

هكذا من الاصل